



# ASX Announcement

Thursday, 23 August 2018

## FY2018 Appendix 4E and Financial Report

In accordance with ASX Listing Rule 4.3A, please find attached the following documents relating to ERM Power's results for the 12 months ended 30 June 2018:

1. ASX Appendix 4E – Preliminary Final Report
2. Annual Financial Report including:
  - 2.1. Operating and Financial Review
  - 2.2. Directors' Report and Remuneration Report
  - 2.3. Annual Financial Statements

A handwritten signature in black ink, appearing to read 'Phil Davis'.

Phil Davis  
Group General Counsel & Company Secretary  
ERM Power Limited

### For further information

Olga Alexandratos

Phone: +61 7 3020 5545

Mobile: +61 409 004 298

Email: [oaalexandratos@ermpower.com.au](mailto:oaalexandratos@ermpower.com.au)

### About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load<sup>1</sup>. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 662 megawatts of low emission, gas-fired power stations in Western Australia and Queensland.

<sup>1</sup> Based on ERM Power analysis of latest published information.

<b>1. Results for the year</b>					<b>FY2018</b>	<b>FY2017</b>
					<b>\$'000</b>	<b>\$'000</b>
<b>1.1. Revenue from ordinary activities:</b>						
1.1.1 Revenue from ordinary continuing activities:						
ERM Power Limited and controlled entities	up	18%	to		3,279,476	2,789,413
<b>1.2. Profit from ordinary activities:</b>						
1.2.1. Underlying EBITDAF from continuing operations*:						
ERM Power Limited and controlled entities	up	25%	to		97,498	78,185
(*Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss excluding significant items. Underlying EBITDAF excludes any profit or loss from associates)						
1.2.2. Underlying NPAT from continuing operations**:						
ERM Power Limited and controlled entities	up	NM <sup>1</sup>	to		30,202	(16,095)
(**Statutory net profit / (loss) after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments and excluding significant items. Underlying NPAT excludes any profit or loss from associates)						
<b>1.3. Net statutory (loss) / profit for the period attributable to members:</b>						
1.3.1 Net (loss) / profit for the period attributable to members:						
ERM Power Limited and controlled entities	down	NM <sup>1</sup>	to		(80,702)	(1,073)
<sup>1</sup> Not meaningful						

## **2. Dividend**

A fully franked final dividend of 4.0 cents per share (2017: 3.5 cents fully franked) has been declared and will be paid on 10 October 2018 to shareholders on record as at 17 September 2018. The Company's shares will trade ex-dividend from 14 September 2018.

The Company's dividend reinvestment plan (DRP) will not apply to this dividend.

In the previous corresponding period FY2017, a fully franked dividend of 3.5 cents per share was declared and paid on 10 October 2017 to shareholders on record as at 15 September 2017. The Company's shares traded ex-dividend from 14 September 2017.

An interim fully franked 3.5 cents per share (2017: 3.5 cents fully franked) dividend was declared on 22 February 2018 and paid on 6 April 2018 to shareholders on record at 6 March 2018.

## **3. Brief explanation of any of the figures reported above or other items of importance not previously released to the market**

The attached Directors' Report and Operational and Financial Review provide further information and explanation.

## **4. Commentary on the results for the year**

The attached Directors' Report and Operational and Financial Review provide further information and explanation.

## **5. Net tangible assets per share**

	<b>FY 2018</b>	<b>FY 2017</b>
	<b>Cents</b>	<b>Cents</b>
Net tangible assets (cents per share)	58	195
Net tangible assets (cents per share) excluding net fair value of derivative financial instruments net of tax:	65	107

## **6. Entities in which control was gained or lost during the year**

During the period 1 July 2017 to 30 June 2018 the Company did not lose or gain control of any entities.

## **7. Details of associates and joint arrangements**

The following entity is accounted for as a joint venture:

- Energy Locals Pty Ltd

The following entity is accounted for as an associate:

- 1st Energy Pty Ltd

The following entities are proportionately consolidated as joint operation entities:

- NewGen Power Neerabup Pty Ltd (50%)
- NewGen Neerabup Pty Ltd (50%)
- NewGen Neerabup Partnership (50%)



# Annual Financial Report for the year ended 30 June 2018

**ERM Power Limited**  
**ABN 28 122 259 223**

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# ERM Power Limited and Controlled Entities

ABN 28 122 259 223

Operating and Financial Review  
for the year ended 30 June 2018

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## About ERM Power

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*ERM Power Limited shares are traded on the Australian Securities Exchange under the symbol EPW. This review is for ERM Power (Company, Group, we, our) for the year ended 30 June 2018 with comparison against the previous corresponding period ended 30 June 2017 (previous period, previous year or comparative period).*




*All reference to \$ is a reference to Australian dollars unless otherwise stated. Individual items totals and percentages are rounded to the nearest approximate number or decimal. Some totals may not add down the page due to rounding of individual components.*

# ERM Power Limited

## Operating and Financial Review

For the year ended 30 June 2018

## Financial Year Highlights

Underlying EBITDAF <sup>1</sup>	Underlying NPAT <sup>1</sup>	Statutory loss
<b>\$97.5m</b>	<b>\$30.2m</b>	<b>(\$80.7)<sup>2</sup>m</b>
 <b>\$19.3m on FY2017</b>	 <b>\$46.3m on FY2017</b>	 <b>\$79.6m on FY2017</b>

<sup>1</sup> All figures continuing operations unless otherwise stated

<sup>2</sup> Includes unrealised net fair value losses of \$76.4m on financial instruments designated at fair value through profit and loss and loss from US discontinued operations of \$34.0m

	FY2018 outlook 24 August 2017	FY2018 outlook 22 February 2018	FY2018 actual
<b>Australia retail</b>			
Sales volume	~19TWh	~19TWh	19.2TWh
Gross margin	~\$4.40 / MWh	~\$4.70 / MWh	\$4.90 / MWh
Opex	~\$23m	~\$23m	\$22.0m
<b>US retail</b>			
Sales volume	~7.5TWh	~6.5TWh	6.3TWh
Gross margin	~A\$5.00/MWh	~A\$4.50/MWh	A\$3.28/MWh
Opex	~A\$3.20/MWh	~A\$3.50/MWh	A\$3.25/MWh
<b>Generation EBITDAF (\$m)</b>			
Oakey	\$14-16m	\$14-16m	\$17.0m
Neerabup	~\$26m	~\$26m	\$27.6m
<b>Energy solutions EBITDAF (\$m)</b>	~(\$4.5)m	~(\$4.0)-(\$4.5)m	(\$3.6)m
<b>Corporate and other costs (\$m)</b>	~(\$15.5)m	~(\$14.5)m	(\$14.6)m

**Underlying EBITDAF** from continuing operations for the Group increased \$19.3m on prior period EBITDAF of \$78.2m. EBITDAF increased substantially due to the performance of the Australian retail business with strong performance also from the Oakey and Neerabup power stations and increasing earnings in our growing Energy Solutions business. **Underlying NPAT** increased \$46.3m with EBITDAF improvements in FY2018 contributing \$13.5m additional after-tax earnings, and no recurrence of the one off permanent tax difference of \$37.1m in FY2017 related to the Clean Energy Regulator shortfall charge.

During the period the Group made decisions to divest the US energy retailing business and sell its SME single site customer contracts held in the Australian energy retailing business. As a consequence, US operating earnings are reflected in discontinued operations and the respective assets and liabilities categorised as held for sale throughout this review. The sale of the SME single site customer contracts resulted in an impairment loss of \$1.0m being recognised during the period.

The decision to sell the US business was taken based on the earnings forecasts of the business and the investment and time required to reach an appropriate return on investment. Under the Group's capital management framework announced in February 2018, capital is allocated to parts of the business that the Board and management consider as providing the best value opportunities. Accordingly, the Board considered that the US business may be of more value to a US strategic buyer while ERM Power increases its focus and allocation of capital on expanding its growing Energy Solutions business in Australia. A sale process was initiated in June 2018 for the US business and the Group expects to finalise a sale during the first half of FY2019.

**Statutory NPAT** was a loss of \$80.7m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments and inclusion of losses incurred from the Group's discontinued US business. The after-tax impact of the unrealised fair value movement was \$76.4m and is a result of falling forward wholesale market electricity prices in 2H FY2018, on derivative instruments largely in place to manage exposures on future customer contracts which have offsetting movements, which are not included for accounting purposes. Statutory NPAT also includes the discontinued operations statutory loss results of \$34.0m.



# Outlook and Future Prospects

The outlook for FY2019 is shown in the table below.

	FY2018 actual	FY2019 outlook
<b>Australia retail</b>		
Sales volume	19.2TWh	~19TWh
Gross margin	\$4.90 / MWh	~\$4.75 / MWh
Opex	\$22.0m	~\$22m
<b>Generation EBITDAF<sup>1</sup> (\$m)</b>		
Oakey	\$17.0m	\$14-16m
Neerabup	\$27.6m	~\$26m
<b>Energy solutions (\$m)</b>		
Revenue	\$18.9m	~+50% on FY2018
EBITDAF	(\$3.6)m	~(\$2.5)m
<b>Corporate and other costs (\$m)</b>	(\$14.6)m	~(\$16.0)m
<b>Short surrender strategy (\$m)</b>	-	\$35-45m NPAT in FY2019/20 (weighted to FY2020).

<sup>1</sup> FY2019 outlook includes \$1.6 million generation overhead expenditure, whilst the actual result in FY2018 was \$0.8m.  
Medium term Australian Retail gross margin outlook is \$4-5.50/MWh.

## Outlook

Sales volumes in Australia Retail are expected to be at or slightly ahead of FY2018 after adjusting for the sale of our SME single site book and loss of the NSW Government SME site contract. The reduction in rate of growth is due to lower volumes expected to come to market in FY2019. The mid-case margin of \$4.75/MWh is in line with the range previously provided of \$4-5.50/MWh, anticipating a slight reduction on the out-performance in FY2018. Opex will be in line with FY2018, and a reduction on FY2017 reflecting continued business efficiencies.

As previously stated, we anticipate that the large scale generation certificates (LGC) strategy will deliver \$35-45m of NPAT across FY2019&20 weighted to FY2020. The outcome and timing will be dependent on market and contractual factors. We retain the right to surrender certificates prior to 14 February 2020. This is not included in the outlook for gross margin.

Our expectation is that generation earnings will be in line with previous years and slightly below FY2018 where we have seen out-performance from both assets due to tighter supply in the Western Australian market and optimisation opportunities at Oakey.

Energy Solutions is expected again to see ~50% sales revenue growth as the business model continues to provide customers the opportunity to realise savings on their energy costs by making investments in energy efficiency. The EBITDAF loss is expected to reduce to around \$2.5m while we continue to invest in operating capability as top line revenues of the business grow rapidly.

Corporate costs are expected to increase to around \$16m driven in part by increased IT costs related to the integration of the Retail and Energy Solutions businesses.

## Future Prospects

ERM Power is playing to its strengths in a transforming energy market. Our strategy accounts for an industry in transition, allowing us to deploy industry expertise and innovative approaches to meet changing customer needs. This has made ERM Power a leader in customer service, underpinning the trust business energy users place in our brand and people. This positions the business strongly to deliver smart energy management solutions which are a strategic differentiator.

Businesses are increasingly looking to ERM Power for ways to meet both supply and demand challenges; to help manage the volatility of the wholesale market and reduce their energy consumption, to improve commercial, social and environmental outcomes.

The external environment is conducive to ERM Power's business plan, with the need for competition clear in the National Energy Guarantee and in the recommendations of the Electricity Supply and Prices Inquiry by the Australian Competition and Consumer Commission (11 July 2018).

ERM Power has a core electricity retailing business from which customer relationships are expanding into new energy management solutions. Investment in recent years has laid a solid platform for this business which is exceeding its targets. The Energy Solutions proposition is underpinned by market insights, deep knowledge of how businesses consume energy and powerful data analytics leading to compelling integrated project solutions.

The Company's generation assets are an important part of the portfolio. Gas has a critical role to play in the transition to a lower-emission electricity sector, highlighting the strategic value of ERM Power's two gas-fired peaking power stations – Oakey Power Station in Queensland, and Neerabup Power Station in Western Australia.

ERM Power continues to execute on its strategy to create a high-performing business that advocates and delivers for energy consumers and in turn, shareholders, while making a positive contribution to the communities in which it operates.

# Review of Operating and Financial Results

## 1. Summary of Group financial results

### 1.1 Performance summary

\$m	FY2018	FY2017 <sup>1</sup>	Change	%
Business Energy Australia	71.9	53.4	18.5	35%
Generation	43.8	41.7	2.1	5%
Energy Solutions	(3.6)	(4.3)	0.7	16%
Corporate and other	(14.6)	(12.6)	(2.0)	(16%)
<b>Underlying EBITDAF continuing operations</b>	<b>97.5</b>	<b>78.2</b>	<b>19.3</b>	<b>25%</b>
Significant items	-	-	-	-
<b>Statutory EBITDAF continuing operations</b>	<b>97.5</b>	<b>78.2</b>	<b>19.3</b>	<b>25%</b>
Depreciation and amortisation	(30.2)	(27.2)	(3.0)	(11%)
Net fair value (loss) / gain on financial instruments	(109.2)	50.9	(160.1)	N/A
Share of associate profit / (loss) (net of tax)	0.2	(0.3)	0.5	N/A
Impairment expense	(1.0)	-	(1.0)	N/A
Finance income	3.1	3.6	(0.5)	(14%)
Finance expense	(27.3)	(24.5)	(2.8)	(11%)
<b>(Loss) / profit before tax</b>	<b>(66.9)</b>	<b>80.7</b>	<b>(147.6)</b>	<b>N/A</b>
Tax benefit / (expense)	20.2	(61.5)	81.7	N/A
<b>(Loss) / profit from discontinued operations</b>	<b>(34.0)</b>	<b>(20.3)</b>	<b>(13.7)</b>	<b>(67%)</b>
<b>Statutory net (loss) / profit after tax (NPAT)</b>	<b>(80.7)</b>	<b>(1.1)</b>	<b>(79.6)</b>	<b>N/A</b>
Add back:				
Net fair value loss / (gain) on financial instruments (net of tax)	76.4	(35.6)	112.0	N/A
Share of associate (profit) / loss (net of tax)	(0.2)	0.3	(0.5)	N/A
Loss / (profit) from discontinued operations	34.0	20.3	13.7	67%
Significant items (net of tax)	0.7	-	0.7	N/A
<b>Underlying NPAT continuing operations</b>	<b>30.2</b>	<b>(16.1)</b>	<b>46.3</b>	<b>N/A</b>
<b>Underlying earnings per share</b>	<b>12.30</b>	<b>(6.59)</b>	<b>18.89</b>	<b>N/A</b>

<sup>1</sup> FY2017 figures restated to exclude US operations now included within discontinued operations.

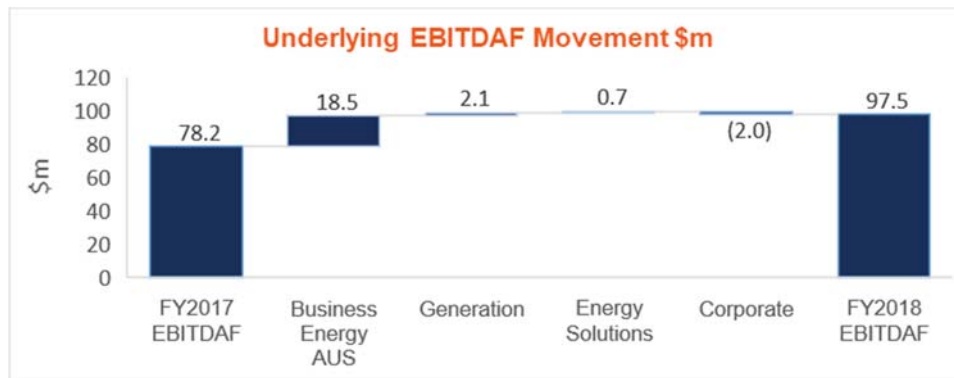
Underlying profits exclude the earnings associated with our US business following a decision to divest the operations as detailed in section 2.2. Accordingly, the results of the US operations are reflected in discontinued operations.

# ERM Power Limited

## Operating and Financial Review

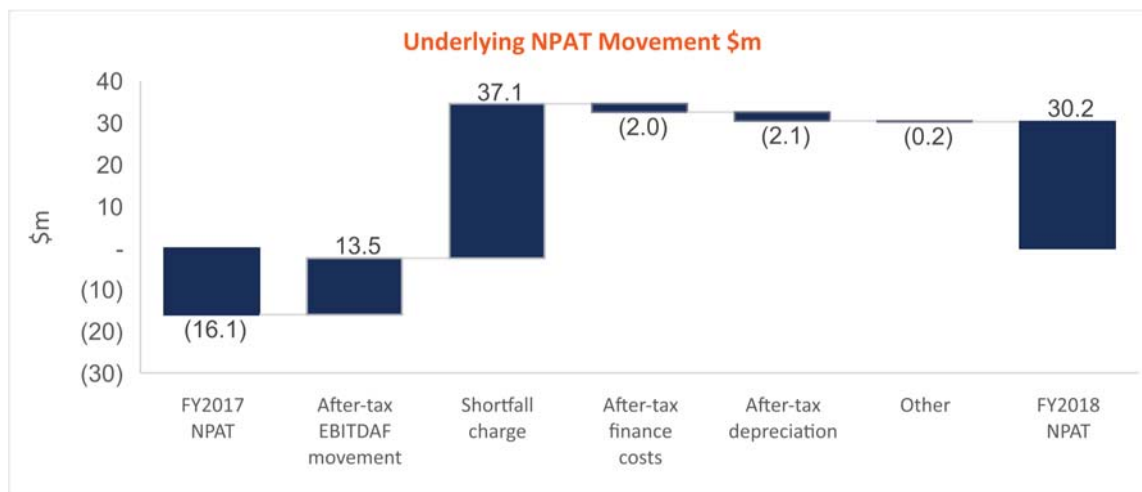
For the year ended 30 June 2018

### 1.2 Underlying profits from continuing operations



**Underlying EBITDAF from continuing operations** for the year was \$97.5m compared to \$78.2m in the previous year. The key drivers of the \$19.3m increase were as follows:

- Business Energy Australia earnings increased by \$18.5m on the comparative period. During the period we continued to see an improvement in operating conditions across the business with continued benefit from our STEP product, portfolio optimisation and the Vales Point offtake agreement, as prices in NSW remained high. Gross profit margin of \$4.90 /MWh was above the previous outlook with lower than expected load and price variance over the second half. Operating costs decreased due to efficiencies.
- Generation earnings increased by \$2.1m on the prior year with Neerabup contributing higher earnings in a tighter wholesale market following a number of plant outages from other generators and weather events creating merchant generation opportunities in the Western Australian market. Oakey benefited from favourable electricity hedging and the monetisation of gas positions.
- Energy Solutions made an EBITDAF loss of \$3.6m, a \$0.7m improvement on the comparative period. Energy Solutions revenue for the period was \$18.9m, up ~55% compared to the prior year.
- Net corporate and other costs increased by \$2.0m on the prior year, mainly as a result of software licence sale earnings realised in FY2017.



# ERM Power Limited

## Operating and Financial Review

For the year ended 30 June 2018

Underlying NPAT from continuing operations was a profit of \$30.2m compared to a loss of \$16.1m in the previous period. The key drivers of the \$46.3m increase were as follows:

- Net after tax impact of EBITDAF movements of \$13.5m;
- A permanent tax difference resulting from the Clean Energy Regulator shortfall charge of \$37.1m in the prior period. The decision to meet a portion of our 2016 LGC surrender requirements by way of payment of a shortfall charge to the Clean Energy Regulator in FY2017 resulted in an additional permanent tax difference as the shortfall charge was not tax deductible;
- After tax impact of finance cost increase of \$2.0m, mainly as a result of the increased Liberty International Underwriters facility announced in July 2017 as well as associated higher prudential requirements in our Business Energy Australia operation following increased wholesale prices; and
- After tax impact of increased depreciation of \$2.1m. Depreciation increased \$1.6m in our Business Energy Australia operations, largely as a result of higher customer acquisition costs and the associated amortisation charge. Depreciation across other parts of the business increased by \$0.5m.

### 1.3 Cash flow

\$m	Continuing operations FY2018	FY2018	FY2017	Change
<b>Cash flow</b>				
Operating cash flow before working capital changes	77.1	76.7	66.2	10.5
Net working capital changes	(136.2)	(119.5)	85.5	(205.0)
<b>Operating cash flow</b>	<b>(59.1)</b>	<b>(42.8)</b>	<b>151.7</b>	<b>(194.5)</b>
Total investing cash flow	(31.8)	(43.5)	(19.8)	(23.7)
Net drawdown / (repayment) of borrowings	145.4	145.4	(23.7)	169.1
Net repayment of leases	(4.1)	(4.4)	(4.1)	(0.3)
Finance costs	(24.4)	(34.0)	(28.7)	(5.3)
Dividends paid	(17.3)	(17.3)	(22.5)	5.2
Payments for shares bought back	(2.9)	(2.9)	-	(2.9)
Termination of US Sleeper agreement	-	(5.1)	-	(5.1)
Effect of exchange rate changes on cash and cash equivalents	-	0.4	(0.8)	1.2
<b>Net change in cash</b>	<b>5.8</b>	<b>(4.2)</b>	<b>52.1</b>	<b>(56.3)</b>

Operating cash flow before working capital changes of \$76.7m were \$10.5m higher than the prior year as a result of higher earnings in the Australian businesses, which were partially offset by higher tax payments made during the year following utilisation of available tax losses in FY17.

Working capital changes saw the reversal of variation margin cash paid in the groups favour in the prior year with a total outflow of \$118.7m. Higher green certificate inventory balances contributed to the increase in working capital, which was partially offset by higher associated working capital liabilities.

Net investing cash flows increased \$23.7m on the prior year with higher spend on customer acquisition costs in our US business as a result of higher load. Investing cash flows in the prior period included the receipt of \$14.9m in August 2016 from the sale of Western Australia joint venture gas interests to Empire Oil & Gas NL in February 2015 as well as \$11.2m from the sale of our US residential business compared to \$4.3 in FY2018.

Finance costs increased on the prior period as a result of higher load sold in our US operation and the associated credit sleeving fees as well as the early termination payment of \$5.1m to exit the previous sleeving arrangement used as part of our US operations. Dividend payments reduced following the reduction of the dividend paid to 3.5 cents per share fully franked.

A total of \$2.9m was spent buying back shares under the buy-back plan announced in February 2018, including transaction costs.

Free cash decreased \$58.6m primarily due to an increase in cash posted to restricted broker margin accounts, which saw restricted cash increase \$41.6m from 30 June 2017.

### 1.4 Balance Sheet

\$m	FY2018	FY2017	Change
<b>Balance sheet<sup>1</sup></b>			
Net assets (including assets held for sale)	249.5	565.9	(316.4)
Net working capital	(7.0)	(73.0)	66.0
Net capital employed including working capital	411.5	369.4	42.1
Net derivative balances	(14.3)	305.3	(319.6)
Net (debt) / cash	(108.7)	55.7	164.4

<sup>1</sup> Continuing operations only for FY2018 unless otherwise indicated

# ERM Power Limited

## Operating and Financial Review

For the year ended 30 June 2018

**Net assets** decreased \$316.4m from 30 June 2017. The decrease was principally as a result of a decrease in net derivative balances of \$319.6m following a reduction in forward electricity market prices. The majority of this movement was reflected in changes in the Group's hedge reserve while changes related to instruments not hedge accounted are reflected in profit and loss.

**Net working capital** overall increased with higher levels of green certificate inventory only partially offset by an associated increase in the working capital liability.

**Net debt** increased principally because of the reversal of variation margin cash previously posted in the Group's favour, as shown in working capital changes in section 1.3 above. The repayment of the variation margin cash previously paid to ERM Power was a result of a decrease in wholesale prices during 2H FY2018. As a result, there was higher utilisation of the ANZ receivables facility at 30 June 2018 than in previous periods.

The Group's reported net debt is subject to fluctuate at balance date as a result of timing of working capital items, in particular settlement timing of wholesale market and counterparty payables related to our electricity retailing business in Australia.

In December 2017, the \$240m facility with ANZ was increased by \$60m for the period from 1 January to 31 May for each year of the remaining term. This increase will support Business Energy Australia's working capital and collateral needs during this peak period. In addition, the term of this facility was extended to July 2020.

### 1.5 Capital management

\$m	FY2018	FY2017	Change
<b>Balance sheet</b>			
Dividends paid (cents per share)	7.0	9.5	(2.5)
Franking percentage	100%	36.8%	63.2%

Under the Company's capital management framework, capital available for distribution or reinvestment is determined with consideration to the liquidity requirements of the business whilst maintaining suitable buffers. Capital not required to maintain liquidity is used firstly in the payment of an appropriate level of ordinary dividends and secondly to fund growth opportunities. Additional surplus capital beyond these requirements is distributed back to shareholders in the most appropriate form. In determining the level of ordinary dividends Directors consider the earnings outlook, sustainability of the dividend level, yield and level of payout relative to earnings. Directors intend to pay dividends bi-annually after the respective period results are published. A reduction in the ordinary dividend is only considered in the event of material earnings volatility.

Consistent with the Company's capital management framework, on 22 February 2018 the Company announced an on-market share buy-back of up to \$20 million. The buy-back commenced on 12 March 2018 and will take place over a 12 month period. At 30 June 2018 1.7m shares had been acquired at a weighted cost of \$1.61 per share.

A fully franked final dividend of 4.0 cents per share for FY2018 was declared on 23 August 2018. An interim dividend of 3.5 cents per share was paid on 6 April 2018. Based on the share price at 30 June 2018, total dividends paid during FY2018 equate to a gross dividend yield of 6.8%.

# ERM Power Limited

## Operating and Financial Review

For the year ended 30 June 2018

## 2. Divisional performance review

### 2.1 Business Energy Australia

ERM Power is the second largest electricity provider to Commercial and Industrial (C&I) customers in Australia and the third largest retailer in the market. ERM Power has brought competition to the Australian market based on price and service; with a number 1 customer service ranking for seven years running<sup>1</sup>.

#### Financial result

	FY2018	FY2017	Change	Change %
Load sold (TWh)	19.2	18.5	0.7	4%
Contestable revenue (\$'000)	2,046,377	1,477,818	568,559	38%
Gross margin (\$'000)	93,938	76,025	17,913	24%
Opex (\$'000)	(22,028)	(22,666)	638	3%
Underlying EBITDAF (\$'000)	71,910	53,359	18,551	35%
Statutory EBITDAF (\$'000)	71,910	53,359	18,551	35%
Underlying gross margin \$/MWh	4.90	4.11	0.79	19%
Underlying opex \$/MWh	(1.15)	(1.23)	0.08	7%

#### Operational highlights

During the year, there was strong growth in C&I load, which grew by 4% whilst SME load reduced by 5%. Total load sold was 19.2 TWh, up 4% on the prior year.

Forward contracted load grew 1% from 28.6 TWh to 28.9 TWh reflecting our continued strong competitive position in the market. This figure includes estimated load from contracted customers on our STEP platform. The recontracting rate in FY2018 improved to 75% of load, which is above the historical average.

The annual NTF Group UMI survey<sup>1</sup> of C&I electricity customers saw ERM Power again comfortably win the survey for the 7th year running with 92% of customers either satisfied or very satisfied. This was a result achieved in a market where customers were struggling with rapidly increasing wholesale costs of energy and re-enforced our position as a trusted partner in helping our customers manage their energy costs. The survey also highlighted our Net Promoter Score amongst our customers to be +40 which is an outstanding result in any industry globally. By contrast, our major competitors were at -32 and -48 respectively. ERM Power was strongly associated with high standards of customer service and overall value for money by our customers which is a strong affirmation of our service model.

The ACCC report into the Retail Electricity industry was finalised in June 2018 with a number of recommendations largely applicable to the mass market. The C&I retail market was predominantly found to be working in customers' interests but highlighted concerns around the degree of vertical integration in wholesale markets. This applied particularly in Queensland where the ACCC found there was excessive market concentration of generation ownership by the Queensland Government. ERM Power is strongly of the view that liquid wholesale markets are essential for efficient operation of the market and ultimately delivers the best results for customers. ERM Power has successfully lobbied for the National Energy Guarantee to recognise these principles in its final design which will be the subject of Government consideration in FY2019.

In June 2018 we entered into a contract for the sale of our SME single site book, which comprised about 5,200 sites. Our core electricity retailing business in C&I and SME multi-site segments where we have a strong proposition, point of differentiation and strategic advantage has seen growth and profitability. SME single site is a very different market and it has proven difficult to achieve returns equivalent to that we can achieve by deploying capital into other areas of the business. As a consequence we determined to exit the SME single site market segment by selling our customer book to Next Business Energy (Next). Sale proceeds are expected to be about \$4m and will be received progressively as customer sites are transferred to Next. Proceeds of \$1.5m were received during the year. At 30 June 2018 the associated contract acquisition costs for these sites were classified as held for sale and written down to the expected value of sale proceeds.

Our mass market focus is now channelled through our residential retailer minority investments, 1st Energy and Energy Locals who are better placed to drive growth through their whole of mass market focus and consequent efficiencies of scale.

Contract length increased in FY2018 to an average length of 2.2 years (up from 1.9 years) as some customers sought longer term contracts due to lower wholesale prices beyond the immediate forward 12 months.

Our STEP online platform continues to resonate with customers. Customer numbers were tracking materially ahead of expectations due to strong interest from customers looking to spread the timing risk of their energy purchases. We expect this trend to continue as market dynamics remain volatile.

<sup>1</sup> Refers to the Utility Market Intelligence (UMI) survey between 2011 and 2017 of large customers of major electricity retailers in Australia by independent research company NTF Group

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In response to customers' increased interest in directly contracting with renewable energy projects, and the increased proportion of electricity supply being provided by intermittent generation, ERM Power developed two new innovative derivative products in order to further facilitate price transparency and market liquidity in additional energy market hedging instruments. One product emulates a typical single-axis tracking solar generator's production profile, and includes both an electricity hedge and a matching amount of LGCs on a one LGC to one MWh basis. The second product is an electricity only product, and is a hedge for all of the non-solar hours.

### Financial performance

Gross margin per MWh increased on the prior year as a result of strong operating performance across the business. During the year we continued to see an improvement in operating conditions with continued benefit from portfolio optimisation and the Vales Point offtake agreement, as prices in NSW remained high. Gross profit margins of \$4.90/MWh were above the previous outlook.

As disclosed previously, under the LGC scheme ERM Power elected to pay the shortfall charge of \$65 per certificate in FY2017 and take up the 3 year optionality period available to potentially acquire certificates through either the market or through securing certificates directly from new renewable generators to assist with obtaining financial close of such projects. ERM Power has a further 1.5 years available under the optionality period to surrender large scale generation certificates. A small volume of certificates (20,000) were remitted during FY2018 for the previous shortfall amount, generating a refund of \$1.3m.

Included within gross margin during the period were timing variances from portfolio optimisation activities including the early settlement of electricity futures contracts. Portfolio optimisation of positions for both black electricity and environmental commodity products is a normal part of operations and may involve early settlement of derivative financial instruments, which may be positive or negative. If these instruments do not qualify for hedge accounting, any realised gain or loss is recognised immediately in profit and loss regardless of the original settlement date.

Operating expenditure decreased \$0.6m on the prior year as a result of efficiencies across the business.

## 2.2 Business Energy US

ERM Power's Houston-based energy retailing business, Source Power & Gas, serves C&I customers in the ERCOT and PJM energy markets. These markets cover Texas and 13 other states in the north east and mid-west of the country.

### Financial result from discontinued operations

	FY2018	FY2017	Change
Underlying EBITDAF (\$'000)	173	(4,734)	4,907
Underlying NPAT (\$'000)	(19,283)	(9,676)	(9,607)
Significant items (\$'000) <sup>1</sup>	14,685	10,654	4,031
Statutory NPAT (\$'000)	(33,968)	(20,330)	(13,638)

<sup>1</sup> Significant items include the after tax impact of unrealised mark to market movements of financial instruments of a \$6.9m gain (2017: \$10.7m loss), termination costs of \$3.7m in respect of exiting the businesses previous sleeving agreement, the effect of a change in federal tax rates in the US of \$7.6m and the deferred tax asset write-down for non-recoverability of US tax losses of \$10.3m. The prior year results include the residential business sold during FY2017.

### Operational performance

During the year load continued to grow with 6.3 TWh sold, up 65% on the prior year when excluding the FY2017 US residential book. Operating costs of \$20.5m were in line with forecast, however gross margin was below expectations at \$3.28/MWh.

The underlying NPAT loss for the year was \$19.3m.

As a result of the decision to realise future value for the business through a sale, the operating results are classified as part of discontinued operations and the respective assets and liabilities held at 30 June 2018 to be divested are classified as held for sale.

Appendix A1.4 contains further details of the operating results for the year and prior years.

### Divestment

ERM Power acquired Source in early 2015 as an entry point for ERM Power to geographically expand its successful electricity retailing model from Australia to the US.

While load has grown roughly six times since that acquisition, ERM Power has decided that the US business may be of more value to a US strategic buyer while ERM Power increases its focus and allocation of capital on expanding its growing Energy Solutions business. Accordingly, a sale process was initiated in June 2018 and the Group expects to finalise a sale of the business before the end of the calendar year.

Net assets held for sale at 30 June 2018 are \$13.2m including the unrealised MTM value of derivative financial instruments. Investors and the market will be updated on the sale process in due course.



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### 2.3 Generation

ERM Power has an interest of 497 MW in two high quality power stations; Oakey and Neerabup (100% interest in the Oakey power station). ERM Power is the operator of both these power stations.

#### Financial result

\$m	FY2018	FY2017	Change	%
<b>External revenue and other income</b>				
Oakey	35.6	96.4	(60.8)	(63%)
Neerabup	34.6	34.2	0.4	1%
Generation development and operations	1.3	1.3	-	-
	<u>71.5</u>	<u>131.9</u>	<u>(60.4)</u>	<u>(46%)</u>
<b>Underlying EBITDAF</b>				
Oakey	17.0	15.8	1.2	8%
Neerabup	27.6	27.2	0.4	1%
Generation development and operations	(0.8)	(1.3)	0.5	38%
	<u>43.8</u>	<u>41.7</u>	<u>2.1</u>	<u>5%</u>

#### Operational highlights

Neerabup Power Station had exceptional operating performance during FY2018 with availability of 99.8%. In response to favourable market conditions driven by weather and plant outages, the power station operated 8.36% of the time, compared to 5.5% in FY2017. This was well above the stations life average.

Oakey Power Station's availability was 91% in FY2018 compared to 90.86% in FY2017. The power station operated 2.5% of the time, compared to 4.5% in FY2017. The power station successfully completed the final stage of its major maintenance of the second unit in 2H FY2018.

There were no Lost Time Injuries at Neerabup or Oakey Power Station during the year, continuing ERM Power's track record of exceptional safety performance in power station operations.

#### Financial performance

Underlying EBITDAF for the period was \$43.8m, up 5% on the prior year.

Plant outages and a tight wholesale market in Western Australia enabled additional merchant revenue to be generated by Neerabup.

The decrease in operation of the Oakey power station did not result in lower earnings due to favourable derivative hedge contracts and as a result of electing to sell gas as a more profitable option than producing electricity.

Capital expenditure costs incurred during the year on the major maintenance were in line with expectations at \$9.5m.

### 2.4 Energy Solutions

ERM Power's Energy Solutions business provides an expanding portfolio of energy solutions to our business customers.

#### Financial result

\$m	FY2018	FY2017	Change	%
Revenue (including internal segment sales)	18.9	12.2	6.7	55%
Gross margin	10.6	6.6	4.0	61%
Operating expenses	(14.2)	(10.9)	(3.3)	(30%)
<b>Underlying EBITDAF</b>	<u>(3.6)</u>	<u>(4.3)</u>	<u>0.7</u>	<u>16%</u>

#### Operational highlights

Strong growth in the metering and advisory service units underpinned the higher revenue and gross margin results compared to the previous period. An increasing share of customers are purchasing multiple products and services as the integrated sales model offering a customised mix of energy solutions gains traction. High electricity prices continue to drive customers to seek advice and energy efficiency solutions. The business continues to develop new products and strategic partnerships to ensure it can respond to a wide range of customer needs.

#### Financial performance

Revenue grew 55% over the past year with growth particularly strong in advisory and metering services, which made up 29% of total revenue and 48% of gross margin.

Expanding the sales and delivery capacity of the business was a key priority in FY2018 which led to an increase of 30% in operating costs, primarily due to an increase in staff numbers across the operating unit.



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### 2.5 Corporate and other

#### Financial result

\$m	FY2018	FY2017	Change	%
External revenue	0.6	2.9	(2.3)	(79%)
Expenses	(15.2)	(15.5)	0.3	(2%)
Underlying EBITDAF	(14.6)	(12.6)	(2.0)	(16%)

Net corporate costs increased on the prior year as a result of external software licence agreements finishing in FY2017. Gross costs decreased slightly on the prior period.

# Appendices

## A1.1 Non-IFRS Financial Information

The directors believe the presentation of certain non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial profit measures are used by the Managing Director to review operations of the Group and include but are not limited to:

1. EBITDAF - Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit. EBITDAF excludes any profit or loss from associates.
2. Underlying EBITDAF - EBITDAF excluding significant items.
3. Underlying NPAT - Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

All profit measures refer to continuing operations of the Group unless otherwise noted.

A reconciliation of underlying NPAT and underlying EBITDAF is detailed in Appendix A1.2 of this document. The above non-IFRS financial measures have not been subject to review or audit. These non-IFRS financial measures form part of the financial measures disclosed in the books and records of the Consolidated Entity, which have been reviewed by the Group's auditor.

The Group is required to value its forward electricity purchase contracts at market prices at each reporting date. Changes in values between reporting dates are recognised as unrealised gains or losses in the particular reporting year either in profit or loss or the hedging reserve.

The directors believe that underlying EBITDAF and underlying NPAT provide the most meaningful indicators of the Group's business performance. Significant items adjusted in deriving these measures are material items of revenue or expense that are unrelated to the underlying performance of the Group.

To allow shareholders to make an informed assessment of operating performance for the year, a number of significant items of revenue or expense in each year have been identified and excluded to calculate an underlying EBITDAF and underlying NPAT measure. These items may relate to one-off transactions or revenue or costs recognised during the year that are not expected to routinely occur as part of the Group's normal operations. A reconciliation of underlying EBITDAF and underlying NPAT are shown in the tables below.

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### A1.2 Reconciliation of underlying EBITDAF and underlying NPAT

FY2018

\$m	Business Energy AU	Generation	Energy Solutions	Corporate and other	Group
Statutory EBITDAF continuing operations	71.9	43.8	(3.6)	(14.6)	97.5
<i>Significant items</i>	-	-	-	-	-
Underlying EBITDAF continuing operations	71.9	43.8	(3.6)	(14.6)	97.5
Statutory NPAT continuing operations	(40.0)	10.6	(4.1)	(13.2)	(46.7)
<i>Significant items</i>	-	-	-	-	-
EBITDAF adjustments (above)	-	-	-	-	-
SME single site impairment	1.0	-	-	-	1.0
Tax effect of significant item adjustments	(0.3)	-	-	-	(0.3)
Total significant items	0.7	-	-	-	0.7
Fair value loss on financial instruments net of tax	76.2	0.2	-	-	76.4
Associate gain after tax	-	-	-	(0.2)	(0.2)
Underlying NPAT continuing operations	36.9	10.8	(4.1)	(13.4)	30.2

FY2017

\$m	Business Energy AU	Generation	Energy Solutions	Corporate and other	Group
Statutory EBITDAF continuing operations <sup>1</sup>	53.4	41.7	(4.3)	(12.6)	78.2
<i>Significant items</i>	-	-	-	-	-
Underlying EBITDAF continuing operations <sup>1</sup>	53.4	41.7	(4.3)	(12.6)	78.2
Statutory NPAT continuing operations <sup>1</sup>	16.8	18.8	(3.6)	(12.8)	19.2
<i>Significant items</i>	-	-	-	-	-
EBITDAF adjustments (above)	-	-	-	-	-
Total significant items	-	-	-	-	-
Fair value gain on financial instruments net of tax <sup>1</sup>	(25.4)	(10.2)	-	-	(35.6)
Associate loss after tax	-	-	-	0.3	0.3
Underlying NPAT continuing operations <sup>1</sup>	(8.6)	8.6	(3.6)	(12.5)	(16.1)

<sup>1</sup> FY2017 figures restated to exclude US operations now included within discontinued operations.

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### A1.3 Historical figures continuing operations

\$m	FY2018	FY2017	FY2016	FY2015	FY2014
Unless indicated					
<b>Business Energy Australia<sup>1</sup></b>					
Load (TWh)	19.2	18.5	18.1	16.1	14.1
Underlying gross margin	93.9	76.0	76.0	76.1	59.1
Underlying operating expenses	(22.0)	(22.7)	(20.6)	(21.5)	(17.9)
Underlying gross margin \$ per MWh	4.90	4.11	4.20	4.72	4.20
Underlying operating expenses \$ per MWh	(1.15)	(1.23)	(1.14)	(1.34)	(1.27)
Underlying EBITDAF	71.9	53.4	55.4	54.6	41.3
<b>Generation<sup>1</sup></b>					
Oakey	17.0	15.8	11.5	22.7	28.6
Neerabup	27.6	27.2	25.1	25.2	23.1
Generation development and operations	(0.8)	(1.3)	(1.2)	(1.1)	(1.2)
Underlying EBITDAF	43.8	41.7	35.4	46.8	50.5
<b>Corporate division statistics<sup>1</sup></b>					
Total revenue	0.6	2.9	1.5	2.7	1.6
Total expenses	(15.2)	(15.5)	(13.1)	(16.6)	(16.0)
Underlying EBITDAF	(14.6)	(12.6)	(11.6)	(13.9)	(14.4)
<b>Energy Solutions<sup>1</sup></b>					
Revenue (includes internal segment sales)	18.9	12.2	5.1	-	-
Gross margin	10.6	6.6	2.8	-	-
Operating expenses	(14.2)	(10.9)	(4.1)	-	-
Underlying EBITDAF	(3.6)	(4.3)	(1.3)	-	-

<sup>1</sup> Excluding significant items – refer to A1.2 for further details.

### A1.4 Business Energy historical margins<sup>1</sup>

Underlying gross margin \$/ MW	2H FY2018	1H FY2018	2H FY2017	1H FY2017	2H FY2016	1H FY2016
Australia	4.72	5.08	7.24	0.73	3.93	4.49
US – discontinued operations	2.83	3.78	2.92	4.23	7.16	5.61
<b>Underlying Opex \$/ MWh</b>						
Australia	(1.15)	(1.15)	(1.26)	(1.19)	(1.08)	(1.21)
US – discontinued operations	(3.22)	(3.30)	(4.36)	(4.70)	(6.13)	(6.82)
<b>Load sold (TWh)</b>						
C&I Australia	9.3	9.2	9.2	8.5	8.8	8.7
SME Australia	0.3	0.4	0.4	0.4	0.3	0.3
US – discontinued operations	3.3	3.0	2.6	2.0	1.3	1.1
<b>Underlying EBITDAF (\$'000)</b>						
Australia	34,177	37,733	57,437	(4,078)	25,970	29,450
US – discontinued operations	(1,274)	1,447	(3,783)	(951)	1,276	(1,283)

<sup>1</sup> All comparative figures for the US discontinued operations include earnings for the residential business, which was sold during FY17.

# ERM Power Limited

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## Glossary

\$m	Millions of dollars
C&I	Commercial and Industrial
Contestable Revenue	Contestable revenue is the electricity sales revenue component on which we earn a margin and excludes pass-through items such as network charges
EBITDAF	Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss. EBITDAF excludes any profit or loss from associates
EBIT	Earnings before interest and tax
ERCOT	Electric Reliability Council of Texas
1H	First half of financial year
2H	Second half of financial year
FY	Financial year ended or ending 30 June
GWh	Gigawatt hours is a unit of energy representing one billion watt hours
IFRS	International Financial Reporting Standards
MWh	Megawatt hours is a unit of energy representing one million watt hours
NEM	The National Electricity Market
NPAT	Net profit after tax
PJM	Pennsylvania, Jersey, Maryland Power Pool
Sleeving	Credit sleeving through intermediary to trade and hedge with third parties
SME	Small to Medium Enterprise
Source Power & Gas	SPG Energy Group LLC
TWh	Terawatt hours is a unit of energy representing one thousand gigawatt hours (GWh)
UMI Survey	Utility Market Intelligence (UMI) survey of major retail electricity retailers by independent research company NTF Group in 2017. Research based on survey of 300 business electricity customers between November 2017 and January 2018. Three major electricity retailers benchmarked
Underlying EBITDAF	EBITDAF excluding significant items
Underlying EBIT	EBIT after excluding the unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying EBIT excludes any profit or loss from associates
Underlying NPAT	Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates
US or USA	United States of America

# Corporate Social Responsibility

## 1. Leadership

### Approach

ERM Power has demonstrated industry leadership in a year of complex and dynamic policy challenges. With 22 percent share (by load) of the Australian business electricity market and market-leading customer satisfaction, the Company's credibility in public policy is founded on customer advocacy and insights, deep knowledge of industry processes, diverse business interests and a direct approach.

Operating in this highly regulated sector, anticipating and influencing public policy is critical to successful business strategy development and execution. ERM Power executives and regulatory specialists actively participate in advocacy and government relations opportunities, sitting on various consultative forums, writing regulatory submissions and engaging with strategic stakeholders. ERM Power also utilises peak bodies, including the Australian Industry Group and the Energy Efficiency Council to amplify its voice across the sector.

### Policy environment in 2018

Over the past year, policy makers have focussed on bringing together energy and climate policy through the development of the National Energy Guarantee to reduce emissions in the National Electricity Market and ensure there is sufficient supply at times of high demand. There has also been a continued attention on transparency in the retail market through the Australian Competition and Consumer Commission's investigation into energy prices and the implementation of several rule changes through the Australian Energy Market Commission.

Against this backdrop, ERM Power took opportunities to effectively inform and influence policy makers towards conditions favourable to enduring national energy policy which supports the community, investors, customers and the business.

### ERM Power's key policy principles

Whether discussing day-to-day obligations or the sector's future more broadly, ERM Power maintains a strong principled approach to advocacy. Priority principles are:

- Enduring, bipartisan, national energy policy, to support greater investment certainty;
- An efficient and orderly transition to a low-emissions energy sector, recognising gas-fired electricity generation as a vital support to intermittent renewables;
- Competitive and technology neutral policies, to provide an even playing field to meet sectoral objectives; and
- Supporting both supply and demand-side measures to improve market efficiency and reliability at lowest cost, to support customers.

These are integral to creating a sustainable energy market into the future.

## 2. Customers

ERM Power is an energy business for business. The Company makes it simple for organisations to take charge of their energy and make smarter choices.

ERM Power continues to demonstrate outstanding service for its customers. In Australia, the Utility Market Intelligence survey<sup>1</sup> reported 92% satisfaction from ERM Power's large business customers, and yet again ranked No.1 in customer satisfaction against its peers. This marks the seventh consecutive year that ERM Power has dominated other retailers in this survey.

Broker satisfaction in Australia is similarly impressive with industry leading satisfaction and a No.1 ranking against other retailers as shown in the Markets and Communication Research (MCR) survey<sup>2</sup>.

Momentum in delivering strong service also continues in the US, with Source Power and Gas's broker satisfaction ranking being in the top three for the third consecutive year. This is a survey<sup>3</sup> of more than 140 brokers ranking more than 50 retailers. At the same time the recognition rate has nearly tripled since acquisition in 2015 going from 21% to 62% of surveyed brokers saying they do business with Source.

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<sup>1</sup> Utility Market Intelligence survey of large customers of major electricity retailers by independent research company NTF Group from 2011 – 2017

<sup>2</sup> Markets and Communication Research (MCR), February 2018

<sup>3</sup> Energy Research Consulting Group's (ERCG) survey, January 2018

# ERM Power Limited

## Corporate Social Responsibility

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### 3. Workplace

#### Employee engagement and enablement

ERM Power listens to what employees have to say about their workplace.

Based on results from ERM Power's second formal employee engagement and enablement survey in 2017, it was clear that employees felt both highly engaged and enabled to strive for results on behalf of the organisation whilst reaching their potential.

ERM Power rated at or above global high-performing norms in a number of critical areas including employee engagement, employee enablement, confidence in leadership, clarity of business strategic direction and customer focus.

Since the survey, strong emphasis has been placed on further improving the workplace experience, with learning and development and collaboration selected as priority areas of focus.

A number of organisational-wide initiatives have been implemented to enhance these priorities, including development programs at all levels and a hackathon. The hackathon brought together multi-disciplinary teams who applied design thinking to come up with proposed solutions to a range of business challenges.

Improvement in both learning and development and collaboration together with other key areas is evident through results from short, regular staff surveys. These internally administered surveys provide an interim indicator of progress ahead of the next formal employee engagement and enablement survey in 2019.

#### Supporting staff wellness

Maintaining a healthy workforce by supporting employee wellbeing has positive outcomes for both employees and ERM Power.

ERM Power offer a range of workplace programs, policies and facilities to support personal wellness. A key initiative offered during the year was a targeted wellness program which provided employees the tools and knowledge to promote balance across key life domains including relationships, nutrition, sleep and exercise.

Other initiatives include a recently updated flexible working policy, an Employee Assistance Program and workplace health and safety training and awareness sessions on a broad range of topics including workplace behaviour, mental health and ergonomics.

#### Safety

Safety is the top priority across ERM Power's locations. Safety measures are reported at each Board meeting, including any first-aid treatment, near misses, and lost-time injuries.

Safety is the first Key Performance Indicator (KPI) for all power station personnel. On-site staff participate in regular safety briefings, plan job observations, safety procedure reviews, and drug and alcohol testing. All corporate staff complete regular online Workplace Health and Safety training modules, and participate in monthly briefings.

In FY2018 ERM Power again celebrated an excellent safety record. Across both Neerabup and Oakey power stations, there were no lost-time injuries, including during Oakey's second major gas turbine and generator overhaul, and a full station upgrade of the operating control system on both gas turbines and the balance of the plant.

#### Diversity

Research shows that organisations comprising of an employee base with a broad range of experience and attributes in a workplace environment that encourages diversity of thought make better decisions and ultimately produce stronger results.

Board and employee diversity is the responsibility of the Remuneration & Nomination Committee and is a focus for the executive and leadership team.

ERM Power continues to make positive progress towards its diversity targets set by the Board in 2016 and has since added additional internal targets which are reviewed monthly at the executive level.

Recognising that leadership starts at the top of an organisation, on 28 February 2018 ERM Power announced the appointment of independent non-executive director Julieanne Alroe, to commence in August 2018. Julieanne is a highly experienced executive with exceptional business leadership qualities and experience in strategy, risk and governance across a range of industries. With Julieanne joining Georganne Hodges as a director, the representation of women on the Board has increased to 25%.

# ERM Power Limited

## Corporate Social Responsibility

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ERM Power continues to improve workplace diversity through a range of initiatives and policies, including:

- Attraction strategies that focus on target labour market segments;
- Annual gender pay equity reviews to proactively address gender pay gaps;
- Ensuring team diversity is considered throughout the recruitment and promotion process;
- Paid parental leave entitlements;
- Flexible work arrangements;
- Women in leadership program; and
- Formal talent identification and succession planning.

ERM Power's report for the Workplace Gender Equality Agency is a comprehensive review of gender diversity in ERM Power's Australian workforce. The 2018 report shows continued progress from the previous reporting period, and is available on the website, along with the company-wide Gender Diversity Policy.

## 4. Community

ERM Power actively seeks to engage with and give back to the communities in which it operates. In 2017, ERM Power launched its 'Power of Giving' sponsorship program as a formal channel for community support and engagement, and continues to honour that program by supporting a wide array of charitable causes throughout the country. Staff are also encouraged to utilise volunteer leave to support charitable causes.

Initiatives supported by ERM Power staff in FY2018 include:

- Over \$72,000 raised through the Vinnies CEO Sleepout event in Brisbane. In addition to participating each year, CEO Jon Stretch is also a CEO Sleepout ambassador, helping to raise awareness for the issue of homelessness while encouraging his peers to participate.
- ERM Power became a sponsor for Robogals Brisbane – an international student-run organisation that aims to inspire, engage and empower young women to consider studying engineering and related fields.
- The team at Neerabup Power Station threw its support behind the Black Dog Institute to help heighten awareness of important mental health issues.
- The Neerabup Power Station team also took advantage of ERM Power's volunteer entitlement to support Manna Inc. – a charitable organisation that aims to provide hope and dignity to Perth's hungry and under privileged. The team prepared 160 meals for those in need.
- ERM Power continues its long-term support of indigenous education programs at The Armidale School in New South Wales and Geelong Grammar School in Victoria.

## 5. Environment

As a diversified energy company, ERM Power recognises the potential for its business to both burden and protect the natural environment. This influences how the Company runs its business, as well as the products and services offered to customers.

### Power station environmental compliance

As operators at Oakey and Neerabup power stations, ERM Power is responsible for ensuring compliance with environmental license conditions. The Company regularly monitors and reports on a broad range of environmental factors, including air and water quality, waste management, emissions of greenhouse gases and other pollutants, pest control, and chemical use.

During FY2018 there were no reportable environmental incidents, nor were there any breaches of any environmental licence conditions at either plant.

#### FY2018 Environmental Snapshot

Power Station	Generation (GWh)	Scope 1 Emissions (tCO <sub>2</sub> -e)	Environmental incidents	Water discharge strategy
Oakey Power Station	73.9	47,187	Nil	Discharge reused for farmland irrigation (salinity neutralised if required).
Neerabup Power Station	250.5	155,772	Nil	Nil discharge – waste water is evaporated to brine.

As peaking power stations, operation and output varies significantly each year as the Company responds to market signals. Accordingly, greenhouse gas emissions from the power stations can also vary significantly. ERM Power maintains high efficiency standards to manage both operational and environmental impact.



# ERM Power Limited

## Corporate Social Responsibility

For the year ended 30 June 2018

ERM Power continually looks for ways to become more efficient and effective in its operations. For example, during the year the water treatment plant at Oakley power station was upgraded, increasing overall water production efficiency.

### Supporting renewable energy

ERM Power is committed to playing its part in the transition to a less emission-intensive energy sector.

The Renewable Energy Target requires electricity retailers like ERM Power to acquire regulatory certificates from renewable energy generators. Retailers may achieve compliance under the scheme by either surrendering the required number of certificates to the Clean Energy Regulator, or by paying a charge for the shortfall in surrendered certificates. Scheme legislation provides a three-year window whereby a retailer may surrender certificates and receive a refund for any charge previously paid.

For the 2017 compliance year, ERM Power achieved compliance by surrendering 2.652 million large scale generation certificates (LGCs). ERM chose to surrender certificates to cover the entire 2017 compliance year liability and there was no shortfall charge payable.

### Energy Solutions

ERM Power considers it both a business opportunity and a social responsibility to enable customers to lower their carbon footprint through smarter energy usage.

The Company helps customers meet their environmental commitments by offering Government-accredited renewable energy under the GreenPower Program. This allows customers to make voluntary contributions above and beyond what otherwise would have occurred.

With its growing Energy Solutions portfolio, ERM Power makes it simple for organisations to take charge of their energy and make smarter choices. The Company relieves organisations of the stress of energy management – cutting through the complexity to develop tailored solutions and help them achieve better energy and business outcomes. When businesses take charge of their energy needs they save time and money, and can remain focused on their business.

## 6. Risk Framework and Management

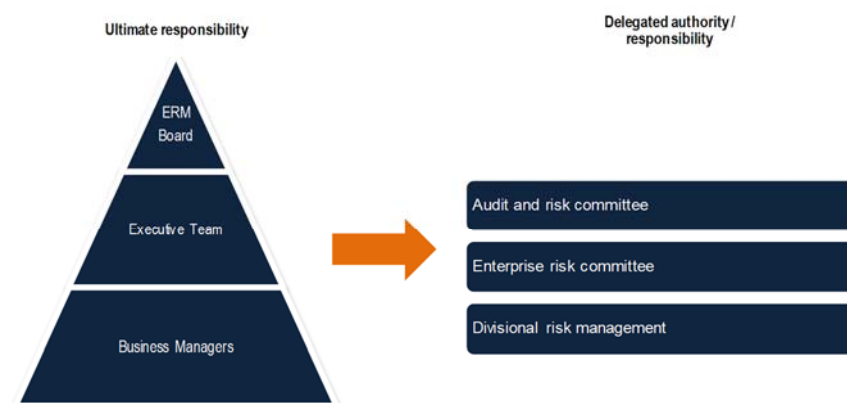
### Group risks

ERM Power recognises that risk is an inherent part of its business. Risk arises from both the external environment in which the Company operates, and its own business and investment decisions. ERM Power does not seek to eliminate these risks; rather it looks to manage and mitigate them, and use them to create opportunity, ensuring the potential range of outcomes is acceptable.

### Risk management framework

Effective risk management requires that risk assessment and decision making is introduced into all functions of the business and through all stages of decision making, whether it be strategy, planning, delivery of projects or operation of assets.

All ERM Power staff are responsible for, and empowered to, take ownership of risk management within their function and for their level of responsibility. This organisation-wide adoption of risk management principles and practices is encouraged and promoted by the ERM Power Board and the executive team. Final accountability and authority for the Risk Management Framework Policy and decisions rests with the Board.



# ERM Power Limited

## Corporate Social Responsibility

For the year ended 30 June 2018

ERM Power's Risk Management Framework Policy is publicly available on the Company's website: <https://ermpower.com.au/about-erm/corporate-governance/>

### Material business risks

ERM Power has an Enterprise Risk Committee which reviews on a quarterly basis business risks, potential impacts and mitigation programs. Key business risks are summarised in no particular order of significance as follows:

Risk	Potential Impacts	Mitigation
	An evolving industry structure, highly competitive retail environment and technological changes in the generation and delivery of energy pose risks and opportunities for the business model.	<ul style="list-style-type: none"> <li>The business model includes diversification of service and product offerings and geography of operations.</li> <li>The business generates revenue on both the supply and demand side.</li> <li>A focus on superior quality of service offering includes deep retailer broker and customer relationships, data services and bespoke product offerings.</li> <li>The business model allows for incorporating commercial opportunities arising from an evolving industry.</li> </ul>
	Government policy and regulatory changes create investment and price uncertainty and can result in restrictions or changes to product and service offerings and price structures.	<ul style="list-style-type: none"> <li>ERM Power has a strong voice in the industry and responds to the regulatory environment via written submissions, participation on industry groups and by representation to regulators, policy makers and politicians, thus influencing outcomes.</li> <li>Strategy supports new and strategic commercial opportunities which leverage regulatory and policy change.</li> </ul>
	ERM Power is exposed to fluctuations in wholesale market electricity and renewable energy certificate prices. This can increase cost of procuring energy to meet customer contract requirements.	<ul style="list-style-type: none"> <li>Group policies prescribe active management of exposures arising from forecast electricity sales within prescribed limits. In doing so, various hedging contracts have been entered into with individual market participants.</li> <li>The hedging program includes severe weather event mitigation.</li> </ul>
	Lack of liquidity in the energy derivative market can impact accurate pricing of retail contracts and hedging of retail contracted load.	<ul style="list-style-type: none"> <li>The Group employs a diverse and dynamic trading strategy which is highly responsive to market dynamics.</li> <li>ERM Power forms strategic trading relationships with energy generators.</li> </ul>
	A failure of our system infrastructure or a cyber-security event may lead to a disruption of operations, a privacy breach, data corruption, theft of commercially sensitive information and damage to our reputation.	<ul style="list-style-type: none"> <li>The Group undertakes system reliability measures which include maintenance and systems support.</li> <li>The Group's approach to cyber security leverages industry best practice set out in Information Security Management standards.</li> </ul>
	Prolonged outage of Oakey or Neerabup Power Stations would lead to a loss of revenue, coinciding with a potentially high cost of servicing derivative hedges.	<ul style="list-style-type: none"> <li>The Group undertakes a preventive maintenance program.</li> <li>Has established contingency plans.</li> <li>Employs fire protection systems and flood plans.</li> <li>Has security systems to prevent security breaches.</li> <li>Has an excellent availability record based on maintenance and training.</li> </ul>

# ERM Power Limited

## Corporate Social Responsibility

For the year ended 30 June 2018

Risk	Potential Impacts	Mitigation
	ERM Power could suffer financial losses if a debtor or wholesale counterparty fails to meet contractual obligations.	<ul style="list-style-type: none"> <li>The Group seeks to limit its exposure to credit risks by:               <ul style="list-style-type: none"> <li>conducting appropriate due diligence on counterparties before entering into arrangements with them;</li> <li>where appropriate obtaining collateral with a value in excess of the counterparties' obligations to the Group;</li> <li>preferential contracting with high credit quality derivative counterparties;</li> <li>diversification by reducing reliance on particular counterparties;</li> <li>reporting and monitoring credit exposures on a regular basis; and</li> <li>setting credit limits aligned to assessed credit strength.</li> </ul> </li> </ul>
	A failure to secure or maintain funding would negatively impact on financial performance, business strategies and growth plans.	<ul style="list-style-type: none"> <li>Actively consider the level of funding under the Group's capital management framework.</li> <li>Maintain existing diversified funding sources and relationships.</li> </ul>
	An inability to attract and retain talent could impact the Company's future financial performance, as well as hinder the ability to innovate.	<ul style="list-style-type: none"> <li>The Company has a robust HR framework in place which includes leadership development and succession planning, career pathway support, a learning and development programme, a focus on engagement and enablement and a competitive remuneration program.</li> <li>An LTI scheme is in place for executives, which encourages retention as well as high performance.</li> </ul>
	Fraud or ethical misconduct could damage our reputation, adversely affect operations and result in financial loss.	<ul style="list-style-type: none"> <li>Regular risk assessments and internal control processes.</li> <li>Pre-employment screening.</li> <li>Segregation of duties.</li> <li>Regular review of financial delegations.</li> <li>Fraud awareness training for all staff.</li> </ul>

# Board of Directors'

## **Anthony (Tony) Bellas**

MBA, BEc, DipEd, FCPA, FAICD, FGC (London)

Independent Non-Executive Chair

Age: 64

Director since 1 December 2009; Chair since 21 October 2011

8.5 years' service

**Skills and experience:** Tony brings over 30 years of policy and operational experience in the energy industry to the business. Tony was previously CEO of the Seymour Group, one of Queensland's largest private investment and development companies. Prior to joining the Seymour Group, Tony held the position of CEO of Ergon Energy, a Queensland Government-owned corporation involved in electricity distribution and retailing. Before that, he was CEO of CS Energy, also a Queensland Government-owned corporation and the State's largest electricity generation company at that time, operating over 3,500 MW of gas-fired and coal-fired plant at four locations.

Tony was Chair of the Independent Review Panel appointed in 2012 by the Queensland Government to review the government owned electricity network businesses in Queensland. The panel submitted its report to the Government in December 2012. Tony was awarded the Centenary Medal in 2001 in recognition of his distinguished career in public service, having achieved the position of Deputy Under Treasurer with Queensland Treasury, and in 2000 as an Assistant Under Treasurer, responsible for the Industry and Energy Division of Queensland Treasury heavily involved in formulating the State Government's energy strategy.

Tony is a director of the listed companies shown below and is also a director of Loch Explorations Pty Ltd, West Bengal Resources (Australia) Pty Ltd and the Endeavour Foundation.

### **Other listed company directorships in the last three years:**

Corporate Travel Management Limited	Since June 2010
intelliHR Holdings Limited	Since December 2016
NOVONIX Limited	Since August 2015
Shine Corporate Ltd	Since March 2013
State Gas Limited	Since June 2017

### **Special Responsibilities**

Chair of the Remuneration & Nomination Committee, a member of the Audit & Risk Committee and the Health, Safety, Environment & Sustainability Committee.

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## **Albert Goller**

Masters Degree in Information & Telecommunications

Independent Non-Executive Director

Age: 67

Director since 1 January 2015

3.5 years' service

**Skills and experience:** Albert brings considerable management and marketing expertise, garnered through a very successful executive career in Germany, Canada, the USA and Australia at the global multinational conglomerate Siemens AG. He was Chair and Managing Director of Siemens Ltd in Australia between 2002 and 2012.

Commencing his career as an electronics engineer with Siemens in Germany in 1973, Albert held a number of senior executive positions throughout the world including President and CEO of Siemens Canada Ltd and Head of the Corporate Office for E-business in Munich, Germany. He has a Masters Degree in Information and Telecommunications from Paderborn University in Germany and was consistently nominated as one of Australia's most influential engineers by Engineers Australia magazine between 2004 and 2010.

Currently a non-executive director, from July 2013 to February 2015 Albert served as the Chair of META, an independent organisation that was funded by the Federal Government and represented the interests of Australian manufacturers across the nation. META had been established to generate innovative thinking and collaboration across manufacturing to target job growth, enhance productivity and increase export opportunities for Australian Manufacturing companies.

### **Special Responsibilities**

Member of the Audit & Risk Committee and the Remuneration & Nomination Committee.

# ERM Power Limited

## Board of Directors'

For the year ended 30 June 2018

### Georganne Hodges

Bachelor of Business Administration in Accounting from Baylor University, CPA (Texas), Member of National Association of Corporate Directors (NACD)

Independent Non-Executive Director

Age: 53

Director since 26 October 2016

1.5 years' service

**Skills and experience:** Georganne brings over 25 years of wholesale and retail energy experience, including extensive industry experience across the energy value chain leading the finance, accounting and other back office operations of medium to large North American wholesale and retail energy companies.

She is currently CFO for energy refining and marketing company Motiva Enterprises, based in Houston Texas and a board member for Big Brothers Big Sisters Lone Star, a non-profit volunteer youth mentoring organisation.

Prior to mid-2016 Georganne was Chief Financial Officer and Treasurer for Spark Energy Incorporated (Nasdaq: SPKE), a US natural gas and electricity supplier serving residential and commercial customers in 16 states, where from 2013 she was responsible for corporate financial reporting, risk management, accounting, financial planning and analysis, treasury, tax and internal controls. During her time there, she successfully completed the company's initial public offering as well as several acquisitions. Prior to joining Spark Energy, Georganne served as Vice President Finance for US company Direct Energy's retail energy business from August 2009 to October 2012 and in various other senior financial roles prior to that. Georganne began her finance career in 1987 with Arthur Andersen, where she audited companies across the energy value chain.

Georganne also holds memberships in the Houston Chapter of CPA's and the Women's Energy Network.

#### **Special Responsibilities**

Member of the Audit & Risk Committee.

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### Antonino (Tony) Iannello

BCom, FCPA, SFFSIA, Harvard Business School Advanced Management Program, FAICD

Independent Non-Executive Director

Age: 60

Director since 19 July 2010

8 years' service

**Skills and experience:** Tony brings to the business more than 30 years of banking and energy experience. Tony is Non-Executive Chair of D'Orsogna Ltd and a director of Juniper Aged Care Services. He has prior experience as a director of the listed companies shown below as well as AusNet Services Ltd, Energia Minerals Ltd, HBF Health Ltd, the MG Kallis Group of Companies, the Water Corporation of Western Australia, and has been a member of The Murdoch University Senate. Prior to embarking on a career as a non-executive director, Tony was the Managing Director of Western Power Corporation until its separation into four separate businesses. Previously he held a number of senior executive positions at BankWest.

#### **Other listed company directorships in the last three years:**

Empire Oil & Gas NL (Chair) November 2013 – March 2018

#### **Special Responsibilities**

Chair of the Audit & Risk Committee and member of the Remuneration & Nomination Committee.

# ERM Power Limited Board of Directors'

For the year ended 30 June 2018

## Philip St Baker

BEng, MAICD  
Non-Executive Director  
Age: 50  
Director since 14 July 2017  
1 years' service

**Skills and experience:** Philip is an experienced entrepreneur active in Australia and the USA. He was previously Managing Director of ERM Power for eight years to 2014 overseeing the development of power generation assets (over \$2 billion in value), and the creation and expansion of ERM Power's retail business. Prior to that Philip had a 16-year career with BHP Billiton gaining international experience in the resources sector including mining, processing, smelting and refining.

In 2014 Philip received the Ernst & Young Queensland Entrepreneur of the Year Award for Listed Companies and was a nominee for the Australian Entrepreneur of the Year. Philip is also a member of State Advisory Board of Queensland for the Starlight Children's Foundation.

### **Other listed company directorships in the last three years:**

NOVONIX Limited (MD & CEO) Since August 2015

### **Special Responsibilities**

Member of the Remuneration & Nomination Committee.

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## Wayne St Baker

FAICD, GDBA, Dip. Mech.Eng.  
Non-Executive Director  
Age: 71  
Director since 1 March 2016  
2.5 years' service

**Skills and experience:** Wayne brings to the business more than 40 years' experience as a chair, executive director and non-executive director of listed and private companies in Australia and SE Asia across the industrial sector.

Wayne is currently a non-executive director of ProComp Energy Machinery (Kunshan) Co. Ltd (China). From March 2010 to April 2016 he was a non-executive director of CAPS Australia, and until 2009 was the Managing Director of Champion Compressors, enabling the company to expand from a small private service and sales company to become a publicly listed manufacturer and market leader in Australia and Asia. Wayne has held global business development roles for divisions of United Technology Corporation (USA). Wayne was previously a non-executive director on the ERM Power Board between July 2007 and June 2010.

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## Jon Stretch

BSc (Melb), MAICD  
Managing Director & CEO  
Age: 54  
Director since 2 February 2015  
3.5 years' service

**Skills and experience:** Jon joined ERM Power as Managing Director and Chief Executive Officer (MD & CEO) on 2 February 2015. He also plays an advocacy role in the broader energy industry speaking at various events such as the Australian Energy Week.

Jon is an experienced chief executive with broad international experience in the information technology (IT), telecommunications and industrial sectors. His background in systems and process engineering, and business-to-business (B2B) and business-to-consumer (B2C) sales and marketing has enabled him to lead business transformation and growth in Australia and internationally.

Prior to joining ERM Power, Jon was the Executive Vice President, Europe, Middle East and Africa (EMEA) for Landis+Gyr, the leading provider of smart metering and energy management solutions globally. Jon joined Landis+Gyr as Executive Vice President Asia Pacific in January 2008 and in April 2010 moved to Switzerland to take up the EMEA position.

Prior to joining Landis+Gyr, Jon was CEO of AAPT, an Australian based telecommunications company, wholly owned by Telecom New Zealand and was based in Sydney. He has had extensive experience in Asia and Europe in IT and telecommunications, starting his career with IBM in Australia in 1986. He spent six years in Hong Kong with IBM and AT&T running substantial cross regional telecommunications services businesses, and several years running AT&T's business across Europe, Middle East and Africa, based in Paris.

### **Special Responsibilities**

Chair of the Health, Safety, Environment & Sustainability Committee, the Workplace Health & Safety Committee, and the Enterprise Risk Committee.

# Directors' Report

In accordance with the Corporations Act 2001, the directors of ERM Power Limited ("Company") report on the Company and the consolidated entity ERM Power Group ("Group"), being the Company and its controlled entities, for the year ended 30 June 2018 ("the year"). The information appearing on the preceding pages forms part of this Director's Report.

## 1. Principal activities

The principal activities of the Group during the year were:

- electricity sales to businesses in Australia and the United States of America;
- generation of electricity; and
- energy solutions.

## 2. Operating results for the year

A review of the operating results of the Group can be found in the Operating and Financial Review on pages 2 to 17.

## 3. Review of operations

A review of the operations of the Group can be found in the Operating and Financial Review on pages 2 to 17.

## 4. Business strategies and prospects

A review of the business strategies and prospects of the Group can be found in the Operating and Financial Review on pages 2 to 17.

## 5. Significant changes in the state of affairs

Consistent with the Company's capital management framework, on 22 February 2018 the Company announced an on-market share buy-back of up to \$20 million. The buy-back commenced in March 2018.

On 29 June 2018, the Company signed a contract for the sale of our SME single site book, which comprises about 5,200 sites. As at 30 June 2018, the Group has classified \$3.4m intangible assets and \$1.5m liabilities as held for sale and impaired \$1.0m of SME single site customer acquisition costs held for sale to reflect management's decision to sell the single site SME customer contracts from the Business Energy Australia operations.

In June 2018, a sale process of the US business was initiated and the Group expects to finalise a sale of the business before the end of the 2018 calendar year. At this stage of the sale process, expected sale proceeds are unknown. As a result of the decision to realise future value for the business through a sale, the operating results are classified as part of discontinued operations and the respective assets and liabilities held at 30 June 2018 to be divested are classified as held for sale.

## 6. Events after balance date

Since 30 June 2018 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

## 7. Likely developments and expected results

Apart from the matters referred to in the Operating and Financial Review on pages 2 to 17, information as to other likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because the directors believe this could result in unreasonable prejudice to the Group.

## 8. Proceedings on behalf of the Company

No person has brought or intervened in on behalf of the Company with an application for leave under section 237 of the *Corporations Act 2001*.

# ERM Power Limited

## Directors' Report

For the year ended 30 June 2018

### 9. Dividends

Subsequent to year end, the directors have declared a final dividend in respect of the 2018 financial year as follows:

Amount: 4.0 cents per share  
 Franking: 100% franked  
 Date Payable: 10 October 2018

The dividend has not been provided for in the 2018 financial statements.

During the year the Company paid an interim fully franked dividend of 3.5 cents per share (2017: 3.5 cents fully franked), together with a fully franked final dividend of 3.5 cents per share in respect of the previous year.

### 10. Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report unless otherwise indicated:

Anthony (Tony) Bellas	Independent Non-Executive Chair
Albert Goller	Independent Non-Executive Director
Georganne Hodges	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Philip St Baker	Non-Executive Director (appointed 14 July 2017)
Trevor St Baker	Non-Executive Deputy Chair and Founder (resigned 14 July 2017)
Wayne St Baker	Non-Executive Director
Jonathan (Jon) Stretch	Managing Director and Chief Executive Officer (MD & CEO)

Information on the current directors can be found in the Board of Directors section on pages 24 to 26. This information includes the qualifications, experience, other directorships and special responsibilities of each director in office as at the date of this report.

### 11. Meetings of directors

The number of meetings of the Board of directors and each Board committee held during the financial year, and the number of meetings attended by each director are as follows:

	Board meetings		Audit & Risk		Remuneration & Nomination	
	A	B	A	B	A	B
Tony Bellas	15	15	6	6	6	6
Albert Goller	15	15	6	6	6	6
Georganne Hodges	13	15	6	6	**	**
Tony Iannello	14	15	6	6	6	6
Philip St Baker	11	13	**	**	6	6
Trevor St Baker	2	2	**	**	**	**
Wayne St Baker	14	15	**	**	**	**
Jon Stretch	15	15	**	**	**	**

A = number of meetings attended

B = number of meetings held during the time the director held office during the year

\*\* = Not a member of the relevant committee

### 12. Directors' interests

The relevant interest of each director in the share capital of the Company at the date of this report, as notified by directors to the ASX in accordance with Section 205G of the Corporations Act, is as follows:

	Ordinary shares
Tony Bellas	106,250
Albert Goller	290,000
Georganne Hodges	-
Tony Iannello	202,839
Philip St Baker	4,762,695
Wayne St Baker	1,625,290
Jon Stretch	3,132,877



# ERM Power Limited

## Directors' Report

For the year ended 30 June 2018

### 13. Company Secretaries

**Phil Davis** LLB, AGIA

Phil Davis joined ERM Power in December 2007 and was appointed Group General Counsel and Company Secretary in October 2015. During this time his roles and responsibilities have covered the whole of ERM Power's business including generation, sales, gas activities, compliance and corporate governance. Phil is a qualified lawyer in Australia and the United Kingdom, and specialises in the corporate, construction, property, energy and resource sectors.

**Suzanne Irwin** B.Com, CPA, C.Dec, FGIA & FCIS

Suzanne Irwin joined ERM Power in February 2007 and was appointed as an additional Company Secretary in 25 August 2017 managing the administrative functions for the Corporate Secretariat department.

### 14. Environment regulation and performance

The Group's environmental regulation and performance can be found in the Corporate Social Responsibility Report on pages 18 to 23.

### 15. Indemnification and insurance of officers

Insurance and indemnity arrangements are in place for directors and officers of the Group. Disclosure of premiums and coverage is not permitted by the contract of insurance.

To the extent permitted by law, the Group indemnifies every person who is or has been an officer against:

- any liability to any person (other than the Company, related entities or a major shareholder) incurred whilst acting in that capacity and in good faith; and
- costs and expenses incurred by that person in that capacity in successfully defending legal proceedings and ancillary matters.

For this purpose, "officer" means any company secretary or any person who makes or participates in making decisions that affect the whole, or a substantial part of the business of the Company or Group.

### 16. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in the Annual Financial Statements which accompany this report.

### 17. Non audit services

Non-audit services provided by the Group's auditors PricewaterhouseCoopers were in relation to advice and certain agreed upon procedures. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

*Amounts received or due and receivable by PricewaterhouseCoopers Australia for non-audit services:*

Other procedures in relation to the entity and any other entity in the consolidated Group

2018	2017
\$	\$
-	93,328

### 18. Rounding of amounts

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Group and the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group and the Company are entities to which the instrument applies.

# **ERM Power Limited**

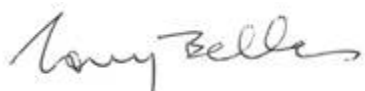
## **Directors' Report**

**For the year ended 30 June 2018**

### **19. Remuneration report**

The Remuneration Report is attached and forms part of this report.

This report is made in accordance with a resolution of the Board of directors.

A handwritten signature in dark ink, appearing to read 'Tony Bellas', is positioned above the printed name and title.

Tony Bellas

**Chairman**

23 August 2018

# Remuneration Report

The directors present the Remuneration Report for ERM Power Limited ("Company") and its consolidated entities ("Group") for the year ended 30 June 2018.

## Structure of this report

The Remuneration Report is divided into the following sections:

1. Key Management Personnel
2. Remuneration governance
3. Senior executive remuneration framework
4. FY2018 executive remuneration outcomes and the link to company performance
5. Non-executive directors' fees
6. Tables for executive remuneration and equity grants
7. Other remuneration disclosures

## 1. Key Management Personnel

For the purpose of this report Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include all non-executive directors of the Board in addition to the following senior executives:

Jonathan (Jon) Stretch	Managing Director and Chief Executive Officer (MD & CEO)
William (Mitch) Anderson	Executive General Manager (EGM) Business Energy (US)
Gregg Buskey	EGM Corporate Finance & Strategy
David Guiver	EGM Trading
Megan Houghton	EGM Energy Solutions
Derek McKay	Chief Information Officer (CIO) and EGM Generation
Stephen (Steve) Rogers	EGM Energy Retail (AU)
Alastair (James) Spence	Chief Financial Officer (CFO)

There have been no changes to KMP from the end of the reporting period up to the date of this Remuneration Report.

## 2. Remuneration governance

The Remuneration & Nomination Committee (Committee) ensures that the remuneration of directors and senior executives is consistent with market practice and is sufficient to ensure that the Company can attract, develop and retain the best individuals. The Committee reviews the remuneration of the MD & CEO and senior executives against the market, and against Group and individual performance. It also reviews non-executive directors' fees against the market, with due regard to responsibilities and demands on time.

The Committee oversees governance procedures and policy on remuneration including:

- general remuneration practices;
- performance management;
- equity plans and incentive schemes; and
- recruitment and termination.

Through the Committee, the Board ensures that the Group's remuneration philosophy and strategy continues to be focused to:

- attract, develop and retain first class director and executive talent;
- create a high performance culture by driving and rewarding executives for achievement of the Group's strategy and business objectives; and
- link incentives to the creation of shareholder value.

In undertaking its role, the Committee may seek the advice of external remuneration consultants who provide analysis to ensure remuneration levels are set to reflect the market for comparable roles. In reviewing remuneration levels for FY2018, the Committee referred to a benchmarking analysis conducted by Korn Ferry Hay Group Pty Ltd (KFHG) in May 2017.

# ERM Power Limited

## Remuneration Report

For the year ended 30 June 2018

Whilst KFHG did not act as a Remuneration Consultant for the purposes of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011, it did provide benchmarking information and data to provide a frame of reference against which the committee could evaluate current remuneration levels for non-executive directors, the MD & CEO, and those executives reporting to the MD & CEO. As no "remuneration recommendations" were made, there is no requirement for KFHG to provide a declaration regarding no undue influence by members of the KMP to whom the reports related to.

### 3. Senior executive remuneration framework

The objective of the Company's executive remuneration framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive remuneration with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice. The Board ensures that executive reward satisfies the following key criteria for good governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive remuneration; and
- transparency.

Remuneration and other terms of employment for the MD & CEO and the other senior executives are formalised in service agreements. Each of these agreements specifies the components of remuneration to which they are entitled and outlines base salary, the provision of incentives, other benefits including superannuation, salary continuance insurance and notice periods required on termination.

Senior executives are remunerated by way of a mix of fixed and variable remuneration in a manner that motivates them to pursue the long term growth and success of the Group. The components of remuneration are:

- base pay and benefits, including superannuation for Australian employees, or retirement contributions for US employees;
- short term and long term incentives; and
- other discretionary cash or equity based incentives.

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance without encouraging undue risk taking, a significant portion of executive's target pay is at risk. The Board considers this combination an effective way to align incentives to shareholder value (refer section 3.2). Short term incentives (STIs) are focused on achieving annual profit and operational targets, whilst long term incentives (LTIs) are focused on alignment with growth in shareholder returns assessed over a three-year period, as well as encouraging talent retention.

#### 3.1 Base salary and benefits

Remuneration is reviewed annually and external remuneration consultants are engaged periodically to provide analysis and advice to ensure executive remuneration is set at levels that reflect the market for comparable positions. The remuneration target is for a fixed remuneration level around the midpoint and a total remuneration close to or above the 75th percentile of comparator groups on achieving strong performance, with flexibility to take into account capability, experience and value to the organisation and performance of the individual. Remuneration is also reviewed on promotion or change of role. There are no guaranteed base salary increases included in executive service agreements.

For Australian employees, superannuation is included in fixed remuneration up to the maximum superannuation contribution base set by the relevant legislation, while the Company contributes to the basic safe harbor 401K retirement plan for the Group's US employees.

#### 3.2 Incentive schemes

Variable remuneration is in the form of STIs and LTIs which represent "at risk" remuneration. STIs are generally paid annually against agreed Key Performance Indicators (KPIs) which are focused on achieving profit and operational targets set by the Board annually. LTIs are designed to align the interests of the senior executives with the Company's shareholders, being accrued over a three-year period and earned through satisfaction of both performance and service conditions.

STIs are paid in the form of cash or equity, or a combination of these. LTIs are paid in the form of equity.

The trading of equities which vest under incentive schemes is required to comply with the Company's Securities Trading Policy. This policy prohibits any employees or directors from entering into any scheme, arrangement or agreement under which the economic benefit derived by the employee or director, in relation to an equity-based incentive award or grant made by the Company is altered, irrespective of the outcome under that incentive award or grant, other than as permitted in any approved share or option plan, or as authorised by the Board.

For shareholders, benefits associated with the incentive schemes include:

- focus on performance improvement at all levels of the Group, with year-on-year earnings growth a core component;
- focus on sustained growth in shareholder wealth, consisting of share price growth, and delivering the greatest returns on assets; and
- the ability to attract and retain high calibre executives.

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For employees, benefits associated with the incentive schemes include:

- provision of clear targets, stretch targets and structures for achieving rewards;
- recognition and reward for achievement, capability and experience; and
- delivery of reward for contribution to growth in shareholder wealth.

KPIs for STI include both financial and non-financial measures using a balanced scorecard approach, and reflect the key measures of success as determined by the Board. These vary from year to year and may include, but are not limited to, a range of measures such as:

- financial measures – including underlying net profit after tax (underlying NPAT), underlying earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains/losses on financial instruments designated at fair value through profit and loss, excluding significant items (underlying EBITDAF), a cash flow proxy, load, etc.;
- people, engagement and enablement measures – safety and environment performance measures, including lost time injury frequency rates, medically treated injury frequency rates and environmental measures; and
- strategic imperatives – focusing on major specific project goals for the period.

KPIs for LTI are market based – with total shareholder return (TSR) quantitative measures.

### Malus and Clawback

The Company has malus and clawback provisions whereby awards will lapse, be forfeit or a participant may be required to reimburse the Company all or part of the cash received as net proceeds on the sale of any award if, in the opinion of the Board:

- a participant is found to have acted fraudulently or dishonestly or is in material breach of obligations to the Group;
- the Company becomes aware of a material misstatement or omission in the financial statements in relation to the Group; or
- any circumstances occur that the Board determines in good faith to have resulted in an unfair benefit to the participant.

### 3.2.1 Short term incentives

STIs are provided to most employees. The awarding of STIs is based on performance against KPIs or targets across three components; individual, team and corporate. Each of these components is allocated a weighting and include both targets and stretch targets that are set at the beginning of each financial year. The MD & CEO's targets and the corporate targets are set by the Board, whilst the individual and team targets are set under the direction of the MD & CEO. The Committee is responsible for determining the STI to be awarded based on an assessment of whether the KPIs are met. To assist in this assessment, the Committee receives detailed reports on performance from management. The Committee has the discretion to not award and to adjust STIs downwards in light of unexpected or unintended circumstances.

At the end of each financial year, achievement of targets is measured and applied against the target participation rate determined for each individual. These participation rates range between 10% and 40% of annual average base salary, with the potential to achieve up to 150% of these levels (i.e. 15% to 60%) for employees other than the MD & CEO and CFO, whose maximum participation rate for the FY2018 STI was 150% and 112.5% respectively. STI awards may be offered by way of cash and/or equity at the election of the Board. Any equity award normally vests immediately.

The following apply to STI in the event of cessation of employment:

- Termination (without cause) - entitlement to pro rata STI for the year is subject to Board discretion.
- Termination (with cause) - STI is not awarded.

### 3.2.2 Long term incentives

The provision of LTI awards exposes executive KMP to long-term movements in the price of the Company's shares, by aligning the long-term interests of executives with shareholders through the use of a Total Shareholder Return (TSR) performance hurdle. This reflects the Company's strategy of adopting a long-term approach to decision making and sustained value creation for shareholders.

For Australian employees, up to and including FY2018 LTIs were provided to selected employees in the form of units in the Company's Employee Share Trust (EST) as established in 2010. The corresponding equity is issued into the EST and units may vest subject to satisfaction of performance and service conditions. During the vesting period, the units are held beneficially on behalf of the participants, and thus the participant enjoys many of the same benefits as the holder of ordinary shares; with entitlement to any dividends that may be awarded and the right to direct the trustee as to how to cast their vote at a meeting of members, although participants are not eligible for the Dividend Reinvestment Plan. These benefits formed part of the employees' total remuneration package and are taken into account during annual remuneration reviews. From FY2019 Australian LTI will be awarded by way of Performance Rights which do not carry voting rights nor will they have any entitlement to dividends.

For US employees, a "Phantom Equity Plan" emulates, as much as possible, the Australian LTI plan, however no equity is actually issued. US participants are given an award of "phantom shares", based on the relevant ASX:EPW market value of shares as at the grant date. The number of phantom shares will convert to a cash salary payment after the expiry of the performance period at which time the value to be paid is determined based on the market value of shares at the end of the performance period, with the same performance and service criteria as Australian participants. No dividends, dividend equivalent cash salary payments or voting rights are associated with the phantom shares.

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Early vesting may occur on a change of control of the Company or the Company's US business, as relevant. A change of control for the Company is determined as a material change in the composition of the Board initiated as a result of a change of ownership of shares and the purchaser of the shares requiring (or agreeing with other shareholders to require) that change in Board composition, or in other circumstances that the Board determines appropriate.

The following will apply to unvested LTI awards on termination of employment:

Circumstance	Potential benefit/treatment
Death, serious injury, disability or serious illness that results in the employee leaving ERM Power "early".	All LTI will vest.
Resignation or termination for cause.	All LTI will be forfeit.
Redundancy, retirement or termination by mutual agreement.	The Board will determine if the unvested LTI will continue to be held from the date the participant's employment ceases to the date at which the relevant LTI award vesting is determined, subject to any other vesting conditions (and subject to limits outlined in the Corporations Act 2001 as they relate to Termination Payments).

LTI issues made in the reporting period will vest subject to continuation of employment for the three-year performance period and total TSR performance. The TSR vesting condition will be determined by the Company's relative TSR performance over the three-year period commencing 1 July, measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. At the end of the three-year period, vesting is determined on the following basis:

- Less than or equal to 50th percentile = 0%
- Greater than 50th to less than the 75th percentile = 50% to 100% (linear)
- 75th percentile and higher = 100%.

The performance hurdle will only be satisfied where the TSR value is positive, and if the TSR value is negative the LTI will not vest.

The Committee is responsible for assessing performance and the LTIs to successfully vest. To assist in this assessment, the Committee receives detailed independent reports from Orient Capital Pty Ltd calculating the TSR performance and ranking against the comparator group.

## 4. FY2018 senior executive remuneration outcomes and the link to company performance

### 4.1 Senior executive remuneration mix

For FY2018, the remuneration for senior executives was reviewed in June 2017 in the context of the benchmarking report of May 2017.

Consistent with the process for other employees, fixed remuneration was increased by CPI for most of the other senior executives; however a review of each individual's experience, performance and alignment with comparative roles resulted in some receiving a higher increase.

Table 4.1 sets out the current named senior executives' target remuneration mix for FY2018. It reflects the STI opportunity available if the performance conditions were satisfied at target, and the value of the LTI as determined by the 10-day volume weighted average price (VWAP) of the Company's shares as awarded at the beginning of the period.

**Table 4.1 - FY2018 Senior Executive Target Remuneration Mix**

	Base pay and superannuation or retirement benefit	Target short term incentive	Target long term incentive	Total target remuneration
MD & CEO	37%	36%	27%	100%
CFO	40%	30%	30%	100%
Other senior executives	57%	16%	27%	100%

ERM Power aims to align senior executive remuneration to strategic and business objectives and the creation of shareholder wealth. There will not always be a direct correlation between the statutory key performance measures and total variable remuneration awarded to senior executives due to the remuneration mix (see Table 4.1), which consists of a mixed focus on annual profit, operational targets, people and engagement goals set by the Board, and the ranking of TSR performance against peers.

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## 4.2 Short Term Incentives

ERM Power has a stated and agreed corporate strategy from which the Company's FY2018 Balanced Scorecard was derived. The scorecard has three dimensions:

- people – engagement and enablement;
- financial and operational; and
- strategic imperatives.

The below measures are assessed based on outcomes for FY2018 and an achievement % is allocated, with the achievement % scaled from a threshold of 80% of target against each measure. A 0% outcome is assigned if the achievement is below 80% of target and a maximum outcome of 150% of the base weighting is possible for target overachievement.

**Table 4.2 – FY2018 Corporate Targets – Balanced Scorecard**

Measure	Target	Weighting	Achievement	Outcome	Commentary
People – engagement and enablement					
Collaboration	Improve by five points <sup>1</sup>	10%	71	15%	● Outcome reflects exceedance of targets
Learning & Development	100% completed plans	10%	100%	15%	
Financial and Operational					
Load AU & US	26.5TWh	10%	19.2TWh <sup>2</sup>	10%	● Achievement reflects continuing operations only. Outcome is moderated for US performance. ● Achievement reflects continuing operations only. Outcome is moderated for US performance. ● Achievement reflects continuing operations only. Outcome is moderated for US performance.
Underlying NPAT	\$13.0m	20%	\$30.2m <sup>2</sup>	25%	
Cash proxy (EBITAF-capex-finance costs)	\$20.7m	10%	\$39.9m <sup>2</sup>	10%	
Strategic Imperatives <sup>3</sup>					
Group	Positioned to budget growth in key financial metrics FY2019 <sup>3</sup>	15%	Target met	15%	● Key strategic programs underway positioning business well ● Achieved
Medium-term growth drivers in key divisions	Positioned to deliver key commercial targets and outcomes <sup>3</sup>	25%	Targets met	25%	
Totals		100%		110%	

1. Hay Group Employee Engagement and Enablement Survey, February 2017 and Pulse surveys FY2018
2. Assessment adjusted for discontinued businesses. Outcome reflects outperformance of the continuing business
3. Specific target commercially sensitive

For senior executives, the awarding of STIs is weighted evenly based on performance against the individual's targets and the corporate targets shown above, other than the MD & CEO whose STI is based on the corporate target alone. The table below provides details of the STI outcomes for current executive KMP in the reporting period and the comparatives for the FY2017 STI. Payment of the STI is at the Board's discretion.

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Table 4.3 - STI Achievement

	FY2018 STI <sup>1</sup>			FY2017 STI <sup>1</sup>		
	Actual	Target	Maximum	Actual	Target	Maximum
Jon Stretch	110%	100%	150%	120%	100%	150%
Mitch Anderson	0%	30%	45%	26%	30%	45%
Gregg Buskey	36%	30%	45%	39%	30%	45%
David Guiver	38%	30%	45%	40%	30%	45%
Megan Houghton	37%	30%	45%	36%	30%	45%
Derek McKay	37%	30%	45%	37%	30%	45%
Steve Rogers	34%	30%	45%	35%	30%	45%
James Spence	86%	75%	112.5%	90%	75%	112.5%

1. Percentage of base salary, other than for James Spence, which is a percentage of fixed annual remuneration (base salary plus superannuation)

### 4.3 Long Term Incentives

The table below shows the Group's financial performance over the last five financial years as required by the Corporations Act 2001, together with the proportion of performance-based LTI vesting metric which is designed to align the interests of senior executives to the Company's shareholders.

Table 4.4 Shareholder Wealth Financial Data

		Year ended 30 June 2018	Year ended 30 June 2017	Year ended 30 June 2016	Year ended 30 June 2015	Year ended 30 June 2014
		Actual	Actual	Actual	Actual	Actual
Revenue and other income	(\$m)	3,280.6 <sup>1</sup>	2,790.2 <sup>1</sup>	2,763.3	2,316.4	2,076.5
EBITDAF <sup>2</sup>	(\$m)	97.5 <sup>1</sup>	78.2 <sup>1</sup>	68.4	81.5	67.9
Statutory NPAT <sup>3</sup> attributable to equity holders	(\$m)	(80.7)	(1.1)	35.8	65.9	(23.9)
Underlying NPAT <sup>4</sup>	(\$m)	30.2 <sup>1</sup>	(16.1) <sup>1</sup>	19.2	32.3	26.3
Basic (loss) / earnings per share	(cents)	(32.9)	(0.4)	14.8	27.4	(10.6)
Underlying (loss) / earnings per share	(cents)	12.3 <sup>1</sup>	(6.6) <sup>1</sup>	7.9	13.4	11.6
Dividend per share	(cents)	7.5	7.0	12.0	12.0	12.0
Closing share price at 30 June	(\$)	1.48	1.20	0.84	2.32	1.82
3 year Total Shareholder Return <sup>5</sup>	%	(29.8)	(18.4)	(51.2)	47.4	32.8
LTI vesting	%	0.0	0.0	0.0	100.0	77.9

1. Excludes discontinued operations.

2. Earnings before net interest costs, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss. EBITDAF excludes any profit or loss from associates.

3. Statutory net profit after tax attributable to equity holders of the Company.

4. Underlying NPAT excludes the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

5. TSR outcomes are provided by an external supplier. The basic calculation of TSR is:

$$\text{TSR} = \frac{(\text{end average share price} \times \text{re-investment factor}) - 1 \times 100}{\text{start average share price}}$$

Average share prices are based on a 60 trading day volume weighted average price (VWAP). All share prices (and dividends) used are adjusted prices, which take into account the impact of any capital changes such as return of capital dividend, rights and bonus issues. The re-investment factor represents the cumulative



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number of shares held at the end of the performance period. It commences with a notional shareholding of one share and assumes dividends are reinvested during the performance period, resulting in a notional shareholding of greater than one share at the end of the performance period (assuming dividends are paid in the period). Franking credits are excluded from TSR calculations.

Table 6.2 details the LTI equity performance based remuneration allocated, forfeited and vested to KMP in during the reporting period. For accounting purposes, LTIs equity are is shown at fair value as determined by the accounting standards and expensed over the performance period.

- The LTI which was awarded in FY2015 for which the three-year performance period expired on 30 June 2017 was forfeited during the period. The three-year performance period had been significantly affected by the falls in the Company's share price in October 2015 and June 2016.
- In August 2018 the Committee determined the FY2016 LTI for which the three-year performance period expired on 30 June 2018 will also be forfeited, which result will be shown in FY2019 Remuneration Report.
- LTI granted during the period - The FY2018 LTI target rate determined for each individual is based on a percentage of annual salary, and for the reporting period it was based on awards of 75% for the MD & CEO as approved by shareholders at the 2017 AGM, 75% for the CFO and 50% for other executive KMP.

## 5. Non-executive directors' fees

Fees are determined by the demands on, and responsibilities of directors and are reviewed annually by the Board. Independent advice may be sought from remuneration consultants to ensure directors' fees are appropriate and in line with the market. The last review of fees was conducted in May 2015. Non-executive directors' fees are determined within an aggregate fee pool limit of \$1,100,000, an amount approved by shareholders at the Annual General Meeting held on 31 October 2013. Any director who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, or who at the request of the directors engage in any journey on the business of the Company, may be paid extra remuneration as determined by the directors which will not form part of the aggregate fee pool limit above. Non-executive directors do not receive any performance-related remuneration or retirement allowances outside of statutory superannuation entitlements.

Fees received by each non-executive director comprise a base fee together with additional fees dependent on the various offices they hold as set out in Table 5.1, with superannuation contributions made at the rates and limits prescribed from time to time by legislation.

**Table 5.1 Non-executive director fees (excluding superannuation)**

Fee type	FY2018 \$	FY2017 \$
Chair	190,000	190,000
Non-executive directors	108,000	108,000
Deputy Chair (in addition to above fee)	30,000	30,000
<b>Additional fees</b>		
Strategy Lead	25,000	25,000
Audit & Risk Committee - chair	20,000	20,000
Audit & Risk Committee - member	10,000	10,000
Remuneration & Nomination Committee - chair	10,000	10,000
Remuneration & Nomination Committee - member	5,000	5,000
Representation on non-wholly owned subsidiary Boards	25,000 each	25,000 each

Although there have been no increases in base or additional fees since FY2015, the change from the prior year in individual directors' cash salary and fees reflect the change in committee composition. On 26 October 2016 Tony Iannello assumed the chair of the Audit & Risk Committee, whilst Tony Bellas assumed the chair vacated by Tony Iannello on the Remuneration & Nomination Committee.

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The accounting value of fees paid to each non-executive director is shown in Table 5.2.

**Table 5.2 Accounting value of non-executive director fees**

		Short-term benefits		Post-employment benefits	Total remuneration per income statement
FY		Cash salary and fees	Non-monetary benefits <sup>1</sup>	Superannuation entitlement	
		\$	\$	\$	\$
Tony Bellas	<b>2018</b>	<b>210,000</b>	<b>7,939</b>	<b>19,950</b>	<b>237,889</b>
	2017	208,413	8,795	19,799	237,007
Albert Goller	<b>2018</b>	<b>123,000</b>	<b>-</b>	<b>11,685</b>	<b>134,685</b>
	2017	123,000	-	11,685	134,685
Georganne Hodges <sup>2</sup>	<b>2018</b>	<b>128,276</b>	<b>979</b>	<b>934</b>	<b>130,189</b>
	2017	87,257	1,800	934	89,991
Tony Iannello	<b>2018</b>	<b>133,000</b>	<b>-</b>	<b>12,635</b>	<b>145,635</b>
	2017	131,413	1,080	12,484	144,977
Philip St Baker <sup>3</sup>	<b>2018</b>	<b>108,964</b>	<b>-</b>	<b>10,352</b>	<b>119,316</b>
	2017	-	-	-	-
Trevor St Baker <sup>4</sup>	<b>2018</b>	<b>16,083</b>	<b>933</b>	<b>1,528</b>	<b>18,544</b>
	2017	191,413	13,243	18,184	222,840
Wayne St Baker	<b>2018</b>	<b>108,000</b>	<b>-</b>	<b>10,260</b>	<b>118,260</b>
	2017	108,000	-	10,260	118,260
<b>Total</b>	<b>2018</b>	<b>827,323</b>	<b>9,851</b>	<b>67,344</b>	<b>904,518</b>
	2017	892,246	24,918	77,407	994,571

**Notes:**

1. Non-monetary benefits include foreign tax advice, health assessments, car parking benefits and associated FBT related items.
2. Appointed 26 October 2016.
3. Appointed 14 July 2017.
4. Resigned 14 July 2017.

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### 6. Tables for executive remuneration and equity grants

**Table 6.1 Executive KMP Remuneration**

The following table shows details of the remuneration expense recognised for the Group's executive KMP for the current and previous reporting period expensed in accordance with the requirements of the accounting standards, with supplementary information provided to reflect the value of vested remuneration received by the KMP in that period (see notes on following page).

Expensed in Income Statement												Supplementary Information <sup>8</sup>			
			Short term benefits				Post-employment benefits <sup>6</sup>	Long term benefits			Total remuneration per income statement <sup>8</sup>	Less: Accounting accruals	Add: STI vesting in current year <sup>9</sup>	Add: Long term equity vesting	Total remuneration vested
			Base salary-cash <sup>2</sup>	Non monetary benefits and annual leave accrual <sup>3</sup>	Other Benefits <sup>4</sup>	Short-term incentive <sup>5</sup>		Long-term Incentive Plan	Other equity based benefits <sup>7</sup>	LSL Accrual					
Jon Stretch (MD & CEO)	2018	A\$	830,384	23,680	59,347	845,818	20,049	338,963	-	1,780	2,120,021	(1,272,512)	868,857 <sup>e</sup>	-	1,716,366
	2017	A\$	780,384	16,743	7,713	936,461	19,616	300,257	4,878	1,592	2,067,644	(1,256,742)	-	600,001	1,410,903
Mitch Anderson <sup>1</sup>	2018	A\$	552,836	32,908	17,356	-	14,200	132,696	-	-	749,996	(150,560)	141,580 <sup>c</sup>	-	741,016
	2017	A\$	554,224	15,928	-	145,483	14,141	185,351	-	-	915,127	(314,493)	-	-	600,634
Gregg Buskey	2018	A\$	395,000	6,508	-	143,887	20,049	103,281	-	13,999	682,724	(265,973)	142,351 <sup>e</sup>	-	559,102
	2017	A\$	365,000	(37,066)	46,327	142,350	19,616	110,360	-	15,500	662,087	(229,443)	-	-	432,644
David Guiver	2018	A\$	415,000	19,811	-	159,264	20,049	106,935	52,652	14,853	788,564	(349,836)	151,051 <sup>e</sup>	-	589,779
	2017	A\$	380,000	(2,463)	-	151,050	19,616	96,092	49,973	16,907	711,175	(309,168)	-	-	402,007
Megan Houghton (2017 part-year for KMP appointment on 21 Nov 2016)	2018	A\$	390,394	4,965	-	144,707	20,049	28,374	100,925	767	690,181	(276,334)	84,004 <sup>e</sup>	96,888	594,739
	2017	A\$	236,486	5,683	-	84,003	13,968	-	72,666	484	413,290	(161,844)	-	-	251,446
Derek McKay	2018	A\$	457,014	(6,589)	27,682	167,673	20,049	125,172	43,804	19,157	853,962	(344,061)	164,499 <sup>e</sup>	-	674,400
	2017	A\$	447,614	(21,825)	-	164,498	19,616	137,151	49,973	16,371	813,398	(343,015)	-	-	470,383
Steve Rogers	2018	A\$	367,164	6,507	-	123,919	20,049	102,115	43,804	(12,107)	651,451	(260,555)	126,672 <sup>e</sup>	-	517,568
	2017	A\$	367,164	(64)	-	126,672	19,616	94,894	49,973	13,558	671,813	(282,447)	-	-	389,366
James Spence	2018	A\$	490,472	7,624	-	441,174	20,049	176,589	11,112	953	1,147,973	(632,970)	450,000 <sup>e</sup>	52,059	1,017,062
	2017	A\$	480,384	913	-	450,000	19,616	112,411	63,354	990	1,127,668	(624,975)	-	52,059	554,752

Refer to page 41 for table 6.1 notes

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Table 6.2 Terms and conditions of equity grants and long term benefits

The terms and conditions of each grant of a cash bonus, performance-related bonus or share-based compensation benefit affecting compensation of disclosed executives in the current or a future reporting period, and the maximum value of the grant that may vest in future financial years is shown below:

	Award <sup>1</sup>	Service and performance criteria	Grant date	Nature of compensation <sup>2</sup>	Fair Value at Grant Date		Equity balance at the start of the year	% Granted as compensation		Vested		Forfeited		Equity balance at the end of the year	Financial Year award may vest	Maximum remaining value of award that may vest <sup>3</sup>
					Total \$	per unit		Number	%	Number	%	Number	%			
Jon Stretch	FY2017 STI	Note 4	27/10/2017	Units in EST	A \$868,857	\$ 1.29	-	676,048	100%	676,048	100%	-	-	-	2018	A \$ -
	FY2015 LTI	Note 5	30/10/2015	Units in EST	A \$159,665	\$ 1.14	140,057	-	-	-	-	140,057	100%	-	2018	A \$ -
	FY2016 LTI	Note 6	30/10/2015	Units in EST	A \$320,015	\$ 1.26	253,980	-	-	-	-	-	-	253,980	2019	A \$ -
	FY2017 LTI	Note 7	26/10/2016	Units in EST	A \$430,685	\$ 0.68	633,361	-	-	-	-	-	-	633,361	2020	A \$ 194,902
	FY2018 LTI	Note 8	23/10/2017	Units in EST	A \$331,078	\$ 0.64	-	517,309	100%	-	-	-	-	517,309	2021	A \$ 263,181
Mitch Anderson	FY2017 STI	Note 4	15/09/2017	Cash	US \$109,767	N/A	-	-	100%	-	100%	-	-	-	2018	US \$ -
	FY2015 LTI	Note 5	13/11/2014	Units in EST	A \$145,685	\$ 1.15	126,683	-	-	-	-	126,683	100%	-	2018	A \$ -
	FY2016 LTI	Note 6	14/03/2016	Phantom Shares	US \$ 60,598	\$ 0.59	101,949	-	-	-	-	-	-	101,949	2019	US \$ -
	FY2017 LTI	Note 7	7/07/2016	Phantom Shares	US \$349,163	\$ 1.77	197,490	-	-	-	-	-	-	197,490	2020	US \$ 203,495
	FY2018 LTI	Note 8	1/07/2017	Phantom Shares	US \$256,174	\$ 1.09	-	234,083	100%	-	-	-	-	234,083	2021	US \$ 200,745
Gregg Buskey	FY2017 STI	Note 4	15/09/2017	Units in EST	A \$142,351	\$ 1.39	-	102,766	100%	102,766	100%	-	-	-	2018	A \$ -
	FY2015 LTI	Note 5	13/11/2014	Units in EST	A \$105,034	\$ 1.15	91,334	-	-	-	-	91,334	100%	-	2018	A \$ -
	FY2016 LTI	Note 6	8/07/2015	Units in EST	A \$108,376	\$ 1.44	75,261	-	-	-	-	-	-	75,261	2019	A \$ -
	FY2017 LTI	Note 7	1/07/2016	Units in EST	A \$112,569	\$ 0.57	197,490	-	-	-	-	-	-	197,490	2020	A \$ 40,288
	FY2018 LTI	Note 8	1/07/2017	Units in EST	A \$103,352	\$ 0.63	-	164,051	100%	-	-	-	-	164,051	2021	A \$ 74,643
David Guiver	FY2017 STI	Note 4	15/09/2017	Units in EST	A \$151,051	\$ 1.39	-	109,046	100%	109,046	100%	-	-	-	2018	A \$ -
	Retention	Note 9	19/08/2013	Performance Rights	A \$250,000	\$ 2.71	92,285	-	-	-	-	-	-	92,285	2019	A \$ 4,167
	FY2015 LTI	Note 5	13/11/2014	Units in EST	A \$ 62,168	\$ 1.15	54,059	-	-	-	-	54,059	100%	-	2018	A \$ -
	FY2016 LTI	Note 6	8/07/2015	Units in EST	A \$110,254	\$ 1.44	76,565	-	-	-	-	-	-	76,565	2019	A \$ -
	FY2017 LTI	Note 7	1/07/2016	Units in EST	A \$117,195	\$ 0.57	205,606	-	-	-	-	-	-	205,606	2020	A \$ 41,943
Megan Houghton	FY2018 LTI	Note 8	1/07/2017	Units in EST	A \$108,585	\$ 0.63	-	172,357	100%	-	-	-	-	172,357	2021	A \$ 78,423
	FY2017 STI	Note 4	15/09/2017	Units in EST	A \$ 84,004	\$ 1.39	-	60,644	100%	60,644	100%	-	-	-	2018	A \$ -
	Commencement Award (1)	Note 10	24/11/2016	Units in EST	A \$ 96,888	\$ 1.11	87,681	-	-	87,681	100%	-	-	-	2018	A \$ -
	Commencement Award (2)	Note 10	24/11/2016	Units in EST	A \$ 96,888	\$ 1.11	87,681	-	-	-	-	-	-	87,681	2019	A \$ 20,185
	FY2018 LTI	Note 8	1/07/2017	Units in EST	A \$102,147	\$ 0.63	-	162,138	100%	-	-	-	-	162,138	2021	A \$ 73,773
Derek McKay	FY2017 STI	Note 4	15/09/2017	Units in EST	A \$164,499	\$ 1.39	-	118,755	100%	118,755	100%	-	-	-	2018	A \$ -
	FY2015 LTI	Note 5	13/11/2014	Units in EST	A \$132,247	\$ 1.15	114,997	-	-	-	-	114,997	100%	-	2018	A \$ -
	FY2016 LTI	Note 6	8/07/2015	Units in EST	A \$134,412	\$ 1.44	93,342	-	-	-	-	-	-	93,342	2019	A \$ -
	FY2017 LTI	Note 7	1/07/2016	Units in EST	A \$138,048	\$ 0.57	242,190	-	-	-	-	-	-	242,190	2020	A \$ 49,407
	Retention	Note 9	24/09/2014	Performance Rights	A \$250,002	\$ 1.79	140,057	-	-	-	-	-	-	140,057	2020	A \$ 67,917
Steve Rogers	FY2018 LTI	Note 8	1/07/2017	Units in EST	A \$119,578	\$ 0.63	-	189,806	100%	-	-	-	-	189,806	2021	A \$ 86,362
	FY2017 STI	Note 4	15/09/2017	Units in EST	A \$126,672	\$ 1.39	-	91,447	100%	91,447	100%	-	-	-	2018	A \$ -
	FY2015 LTI	Note 5	13/11/2014	Units in EST	A \$ 62,168	\$ 1.15	54,059	-	-	-	-	54,059	100%	-	2018	A \$ -
	FY2016 LTI	Note 6	8/07/2015	Units in EST	A \$110,254	\$ 1.44	76,565	-	-	-	-	-	-	76,565	2019	A \$ -
	FY2017 LTI	Note 7	1/07/2016	Units in EST	A \$113,237	\$ 0.57	198,661	-	-	-	-	-	-	198,661	2020	A \$ 40,527
James Spence	Retention	Note 9	24/09/2014	Performance Rights	A \$250,002	\$ 1.79	140,057	-	-	-	-	-	-	140,057	2020	A \$ 67,917
	FY2018 LTI	Note 8	1/07/2017	Units in EST	A \$ 96,069	\$ 0.63	-	152,490	100%	-	-	-	-	152,490	2021	A \$ 69,383
	FY2017 STI	Note 4	15/09/2017	Units in EST	A \$450,000	\$ 1.39	-	324,863	100%	324,863	100%	-	-	-	2018	A \$ -
	Commencement Award (2)	Note 11	13/08/2015	Units in EST	A \$ 52,059	\$ 2.22	23,450	-	-	23,450	100%	-	-	-	2018	A \$ -
	FY2016 LTI	Note 6	13/08/2015	Units in EST	A \$122,234	\$ 1.39	87,938	-	-	-	-	-	-	87,938	2019	A \$ -
	FY2017 LTI	Note 7	1/07/2016	Units in EST	A \$231,307	\$ 0.57	405,801	-	-	-	-	-	-	405,801	2020	A \$ 82,784
	FY2018 LTI	Note 8	1/07/2017	Units in EST	A \$200,366	\$ 0.63	-	318,042	100%	-	-	-	-	318,042	2021	A \$ 144,709

Refer to page 41 for table 6.2 notes

# ERM Power Limited

## Remuneration Report

For the year ended 30 June 2018

### Notes for Table 6.1:

1. Transferred to US on 1 February 2015 with relocation expenses met by the Group. Existing LTI awards will continue to be expensed in Australia, whilst new LTI awards under the Phantom Equity Plan and other remuneration is expensed and paid in US\$. Executive remuneration is reported in A\$ using the average exchange rates of A\$1=US\$0.7753 for FY2018, and A\$1=US\$0.7545 for FY2017.
2. Each senior executive is employed under an on-going employment contract, for which the termination benefits are payable at the option of the Company in lieu of notice. The notice periods (by the employee or the Company) in respect of each of the executives listed is 6 months, however for Jon Stretch the Company has an additional right of termination in certain circumstances by providing 3 months' written notice.
3. Non-monetary benefits includes annual benefits of salary continuance insurance premiums paid for Australian employees, health insurance coverage for US residents and executive health assessments.
4. Other benefits include non-recurring items, such as a retention accrual for Mitch Anderson given the potential sale of the US business, relocation allowance in regards to professional tax services, cashing out of annual leave, and subsidisation of a family visit during an extended US secondment for Derek McKay.
5. Short term incentives in respect of FY2018 have not been paid by the date of this report, with accounting accruals shown for the expected payments based on the STI achievements reported in Table 4.3.
6. Australian superannuation entitlements and US 401K retirement plan contributions.
7. Other equity benefits refer to the accounting expense of retention and commencement awards which will vest subject to service conditions.
8. The amounts shown are as expensed in the income statement but which may not reflect the benefit actually received by the executive in that year. In accordance with AASB2, equity benefits include a portion of the value of equity that has not vested during the financial year as well as the present value of expected dividends over the vesting period. The amount included as remuneration does not necessarily reflect the benefit (if any) that may ultimately be realised by the executive if vesting occurs. Supplementary Information is provided to reflect the value of vested remuneration actually received by the executive in that year, with equity values based on the fair value as at the date of grant.
9. The STI vesting in the current year relates to performance in FY2017. Awards were made in cash ("c") or equity ("e").

### Notes for Table 6.2:

1. There have been no alterations in terms or conditions since grant date.
2. The nature of compensation may be by way of cash or equity (units in the Employee Share Trust (EST), Performance Rights or Phantom Shares for US employees.
3. The maximum value yet to vest for Australian awards has been determined as the amount of fair value as at grant date that is yet to be expensed in a future accounting period. The maximum value yet to vest for the US award has been determined as the amount that may be expensed in a future accounting period based on the closing share price and exchange rate as at 30 June 2018. The minimum value yet to vest will always be zero, as equity will be forfeited if the vesting conditions are not met.
4. The FY2017 STI achievements were disclosed in Table 4.3 of the FY2017 Remuneration Report. The award by way of equity was included for shareholder approval at the 2017 Annual General Meeting for Jon Stretch.
5. FY2015 LTI TSR was determined to be -18.4%, which in accordance with the vesting conditions resulted in 100% of the FY2015 LTI being forfeited.
6. FY2016 LTI vesting was subject to continuation of employment through to 30 June 2018 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. On 16 August 2018 the Committee determined that the TSR vesting conditions required at the date of grant had not been met, and the FY2016 LTI awards were forfeited by all participants.
7. FY2017 LTI vesting is subject to continuation of employment through to 30 June 2019 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
8. FY2018 LTI vesting is subject to continuation of employment through to 30 June 2020 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
9. Performance Rights granted under an employee retention strategy, subject to a 5 year vesting period and satisfied, at the Board's discretion, in cash or equity, subject to continuous full-time employment with the Company. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting.
10. Commencement award of \$200,000 of units in the Employee Share Trust. Vesting subject to continued employment to each vesting date. 50% to vest in November 2017 with the balance to vest in November 2018. Fair value as determined by AASB2 and expensed over the vesting period.
11. Commencement award of \$100,000 of units in the Employee Share Trust. Vesting subject to continued employment to each vesting date. 50% vested on the first anniversary of the commencement date, and the remaining 50% are to vest on the second anniversary of the commencement date. Fair value as determined by AASB2 and expensed over the vesting period.

# ERM Power Limited

## Remuneration Report

For the year ended 30 June 2018

### 7. Other Remuneration Disclosures

#### 7.1 Details of shares, options and rights

##### Unissued shares

No options were granted to directors or any of the five highest remunerated officers of the Group during the reporting period or since the end of FY2018. As at the date of this report, there were no options exercisable into fully paid ordinary shares on issue, and no shares were issued during the year on the exercise of any options.

##### Performance rights and option holdings

The numbers of options or rights over ordinary shares in the Company granted under executive incentive schemes that were held during the financial year by each disclosed executive of the Group, including their related parties, are set out below:

**Table 7.1 – Performance rights and option holdings**

	Balance at the start of the year		Appointment or cessation as KMP	Expired	Balance at the end of the year	
	Vested and exercisable	Unvested			Vested and exercisable	Unvested
Philip St Baker	-	-	242,706	(242,706)	-	-
Jon Stretch	-	-	-	-	-	-
Mitch Anderson <sup>1</sup>	106,364	-	-	(106,364)	-	-
Gregg Buskey	61,634	-	-	(61,634)	-	-
David Guiver	55,228	92,285	-	(55,228)	-	92,285
Megan Houghton	-	-	-	-	-	-
Derek McKay	106,364	140,057	-	(106,364)	-	140,057
Steve Rogers	45,410	140,057	-	(45,410)	-	140,057
James Spence	-	-	-	-	-	-

1. Excludes Phantom Shares as not a right over issued securities

##### Share holdings

The numbers of shares in the Company held during the financial year by each director and other disclosed executives of the Group, including their related parties, are set out in the tables below:

**Table 7.2 - Non-executive director's share holdings**

Non-executive directors <sup>1</sup>	Balance at the start of the year	Appointment or cessation as KMP <sup>2</sup>	Other Changes <sup>3</sup>	Balance at the end of the year
Tony Bellas	106,250	-	-	106,250
Albert Goller	270,000	-	20,000	290,000
Georganne Hodges	-	-	-	-
Tony Iannello	202,839	-	-	202,839
Philip St Baker	-	6,252,564	(1,489,869)	4,762,695
Trevor St Baker	63,496,907	(63,496,907)	-	-
Wayne St Baker	1,625,290	-	-	1,625,290

1. No shares were held nominally other than by Trevor St Baker for which the opening balances above included 3,075,242.

2. Philip was appointed and Trevor resigned on 14 July 2017.

3. On and off market movements, dividend reinvestment plan, etc.

# ERM Power Limited

## Remuneration Report

For the year ended 30 June 2018

Table 7.3 - Executive's share holdings

Executives	Balance at the start of the year		Received on vesting of performance rights	Granted as compensation	Forfeit	Other Changes <sup>1</sup>	Balance at the end of the year		Balance at the end of the year held nominally
	Vested	Unvested					Vested	Unvested	
Jon Stretch	1,052,179	1,027,398	-	1,193,357	(140,057)	-	1,728,227	1,404,650	732,179
Mitch Anderson <sup>2</sup>	1,339,820	126,683	-	-	(126,683)	(43,800)	1,296,020	-	-
Gregg Buskey	142,416	364,085	-	266,817	(91,334)	1	245,183	436,802	9
David Guiver	180,227	336,230	-	281,403	(54,059)	(55,350)	233,923	454,528	-
Megan Houghton	-	175,362	-	222,782	-	-	148,325	249,819	-
Derek McKay	456,589	450,529	-	308,561	(114,997)	(56,702)	518,642	525,338	45,000
Steve Rogers	152,364	329,285	-	243,937	(54,059)	-	243,811	427,716	-
James Spence	218,992	517,189	-	642,905	-	-	567,305	811,781	195,542

1. On and off market movements, dividend reinvestment plan etc.

2. Excludes phantom shares.

## 7.2 Loans to Key Management Personnel

Details of loans made to KMP or close members of the family of a member of the KMP, or an entity over which the KMP has control or significant influence, are set out below:

Aggregate amounts	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Number in Group at the end of the year
	\$	\$	\$	\$	
FY2018	40,679	1,034	-	-	-

The above loan represents an employee shareholder loan that was offered to certain senior executives in 2007 and 2008 to participate in a share loan incentive plan which enabled them to subscribe for shares. The loan was subject to a loan deed and was interest bearing at the FBT benchmark rates with recourse limited to the value of the shares. The amount shown for interest not charged in the table above represent the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's-length basis. The loan was repaid in full during the period.

No loans were made, guaranteed or secured, nor remain outstanding in the reporting period to any KMP or close member of the family of any KMP for an amount greater than \$100,000.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to KMP.

## 7.3 Other transactions with KMP

During the period the Company entered into certain transactions with KMP or their related entities as outlined in note 32 of the Financial Statements. The Board is satisfied that those transactions:

- were on terms and conditions no more favourable than those that would have been adopted if dealing at arm's length with an unrelated person;
- did not have the potential to affect adversely decisions about the allocation of scarce resources made by users of the financial statements, or the discharge of accountability by the KMP; or
- were trivial or domestic in nature.

## 7.4 Voting and comments received at the 2017 Annual General Meeting

The Company received more than 97% of votes cast at the 2017 AGM on the Remuneration Report when put to a poll. Although the company did not receive any specific feedback at the AGM on its remuneration practices, the Committee resolved to change the format of future long term incentives to be more aligned with common practice in the market. From FY2019 it was resolved that long term incentive awards will be via the issue of Performance Rights, which do not carry voting entitlements nor rights to dividends during the vesting period whilst performance hurdles are yet to be satisfied.

ERM Power Limited  
Annual Financial Statements  
for the year ended 30 June 2018



# ERM Power Limited

## Annual Financial Statements

For the year ended 30 June 2018

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The financial statements were authorised for issue by the directors on 23 August 2018. The directors have the power to amend and reissue the financial statements.

These financial statements cover ERM Power Limited as a consolidated entity comprising ERM Power Limited and its controlled entities.

The Group's presentation currency is Australian dollars (AUD). All subsidiaries operating in Australia have a functional currency of AUD and all subsidiaries operating in the United States have a functional currency of US Dollars (USD). ERM Power Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is set out on page 116.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 27 to 30. The Directors' Report does not form part of the annual financial statements.

ABN 28 122 259 223



## *Auditor's Independence Declaration*

As lead auditor for the audit of ERM Power Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ERM Power Limited and the entities it controlled during the period.

A handwritten signature in dark ink, appearing to read 'Michael Shewan'.

Michael Shewan  
Partner  
PricewaterhouseCoopers

Brisbane  
23 August 2018

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**PricewaterhouseCoopers, ABN 52 780 433 757**

480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

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# ERM Power Limited

## Consolidated Income Statement

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>CONTINUING OPERATIONS</b>			
Revenue	4	3,279,476	2,789,413
Other income		1,107	819
<b>Total revenue</b>		<b>3,280,583</b>	<b>2,790,232</b>
Expenses	5	(3,183,085)	(2,712,047)
<b>EBITDAF</b>		<b>97,498</b>	<b>78,185</b>
Depreciation and amortisation		(30,224)	(27,189)
Impairment expense	16	(1,034)	-
Net fair value (loss) / gain on financial instruments designated at fair value through profit or loss	6	(109,153)	50,929
<b>Results from operating activities</b>		<b>(42,913)</b>	<b>101,925</b>
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method		195	(298)
Finance income	7	3,100	3,611
Finance expense	7	(27,311)	(24,487)
<b>(Loss) / profit before income tax</b>		<b>(66,929)</b>	<b>80,751</b>
Income tax benefit / (expense)	8	20,195	(61,494)
<b>(Loss) / profit from continuing operations</b>		<b>(46,734)</b>	<b>19,257</b>
Loss from discontinued operations (attributable to equity holders of the Company)	31	(33,968)	(20,330)
<b>Statutory loss for the year attributable to equity holders of the Company</b>		<b>(80,702)</b>	<b>(1,073)</b>
<b>Statutory (loss) / earnings per share based on continuing operations attributable to the ordinary equity holders of the Company</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	1	(19.03)	7.89
Diluted earnings per share	1	(18.52)	7.66
<b>Statutory (loss) / earnings per share based on earnings attributable to the ordinary equity holders of the Company</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	1	(32.86)	(0.44)
Diluted earnings per share	1	(31.99)	(0.43)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

Operational business segment performance and underlying profit of the consolidated entity is presented in note 3, together with a reconciliation between statutory profit attributable to members of the parent entity and underlying profit.

**ERM Power Limited**  
**Consolidated Statement of Comprehensive Income**  
For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Statutory loss for the year</b>		<b>(80,702)</b>	<b>(1,073)</b>
<b>Other comprehensive (loss) / income</b>			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Changes in the fair value of cash flow hedges (net of tax)	27	(223,772)	116,574
Other comprehensive income arising from discontinued operations	31	1,310	(1,342)
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Changes in the fair value of financial assets at fair value through other comprehensive income (net of tax)	27	(6)	(142)
<b>Other comprehensive (loss) / income for the year attributable to equity holders of the Company (net of tax)</b>		<b>(222,468)</b>	<b>115,090</b>
<b>Total comprehensive (loss) / income for the year attributable to equity holders of the Company</b>		<b>(303,170)</b>	<b>114,017</b>
Total comprehensive (loss) / income for the year attributable to equity holders of the Company arises from:			
Continuing operations		(270,512)	135,689
Discontinued operations	31	(32,658)	(21,672)
		<b>(303,170)</b>	<b>114,017</b>

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# ERM Power Limited

## Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	24	227,636	244,616
Trade and other receivables at amortised cost	10	320,251	360,947
Inventories	11	81,762	42,257
Current tax assets		2,974	-
Other assets	12	14,601	6,180
Derivative financial instruments	13	73,127	325,161
		<b>720,351</b>	<b>979,161</b>
Assets classified as held for sale	31	167,235	-
<b>Total Current Assets</b>		<b>887,586</b>	<b>979,161</b>
<b>Non-Current Assets</b>			
Financial assets at fair value through other comprehensive income		9	15
Investments accounted for using the equity method	29(c)/(d)	6,898	6,702
Derivative financial instruments	13	25,968	81,445
Property, plant and equipment	15	390,682	391,386
Deferred tax assets	21	-	13,850
Intangible assets	16	38,466	89,378
Leased assets	18	10,524	14,381
<b>Total Non-Current Assets</b>		<b>472,547</b>	<b>597,157</b>
<b>TOTAL ASSETS</b>		<b>1,360,133</b>	<b>1,576,318</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	19	423,639	464,314
Current tax liabilities		-	18,088
Borrowings	25	150,831	-
Borrowings – limited recourse	25	8,904	8,264
Lease liabilities	18	3,681	3,605
Derivative financial instruments	13	28,239	33,889
Provisions	20	6,596	14,811
		<b>621,890</b>	<b>542,971</b>
Liabilities directly associated with assets classified as held for sale		152,088	-
<b>Total Current Liabilities</b>		<b>773,978</b>	<b>542,971</b>
<b>Non-Current Liabilities</b>			
Borrowings – limited recourse	25	176,567	180,653
Lease liabilities	18	13,588	18,375
Derivative financial instruments	13	85,183	67,453
Deferred tax liabilities	21	57,095	178,380
Provisions	20	4,222	22,606
<b>Total Non-Current Liabilities</b>		<b>336,655</b>	<b>467,467</b>
<b>TOTAL LIABILITIES</b>		<b>1,110,633</b>	<b>1,010,438</b>
<b>NET ASSETS</b>		<b>249,500</b>	<b>565,880</b>
<b>EQUITY</b>			
Contributed equity	26	340,431	335,012
Reserves	27	(2,277)	220,877
(Accumulated losses) / retained earnings		(88,654)	9,991
<b>TOTAL EQUITY</b>		<b>249,500</b>	<b>565,880</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# ERM Power Limited

## Consolidated Statement of Changes in Equity

As at 30 June 2018

	Note	Contributed equity \$'000	Reserves \$'000	(Accumulated losses) / retained earnings \$'000	Total equity \$'000
<b>Balance at 1 July 2016</b>		332,355	103,413	35,635	471,403
Impact of change in accounting policy		-	-	(732)	(732)
Loss for the period		-	-	(1,073)	(1,073)
Other comprehensive income		-	115,090	-	115,090
<b>Total comprehensive income for the year</b>		-	115,090	(1,805)	113,285
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	2	1,301	-	(23,839)	(22,538)
Issue of shares pursuant to employee incentive scheme	26/27	5,909	(1,153)	-	4,756
Purchase of treasury shares	26	(4,553)	-	-	(4,553)
Share based payment expense	33	-	3,527	-	3,527
<b>Balance at 30 June 2017</b>		<b>335,012</b>	<b>220,877</b>	<b>9,991</b>	<b>565,880</b>
Loss for the period		-	-	(80,702)	(80,702)
Other comprehensive loss		-	(222,468)	-	(222,468)
<b>Total comprehensive loss for the year</b>		-	(222,468)	(80,702)	(303,170)
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	2	673	-	(17,943)	(17,270)
Issue of shares pursuant to employee incentive scheme	26/27	9,893	(3,052)	-	6,841
Purchase of treasury shares	26	(2,675)	-	-	(2,675)
Buy-back of shares (net of transaction costs and tax)	26	(2,472)	(408)	-	(2,880)
Share based payment expense	33	-	2,774	-	2,774
<b>Balance at 30 June 2018</b>		<b>340,431</b>	<b>(2,277)</b>	<b>(88,654)</b>	<b>249,500</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# ERM Power Limited

## Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		4,117,624	3,488,152
Payments to suppliers and employees		(4,017,873)	(3,394,711)
Transfer (to) / from variation margin account		(118,723)	69,181
Interest received		3,069	3,475
Income tax paid		(26,876)	(14,405)
<b>Net cash (outflow) / inflow from operating activities</b>	9	<b>(42,779)</b>	151,692
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(16,036)	(16,084)
Proceeds on disposal of plant and equipment		177	-
Payments for intangible assets		(33,273)	(24,302)
Proceeds on disposal of gas assets		-	14,921
Purchase of shares and options in non-listed companies		(100)	(5,500)
Proceeds on sale of discontinued operations	31	4,253	11,183
Deposit on sale of SME customer contracts		1,450	-
<b>Net cash outflow from investing activities</b>		<b>(43,529)</b>	(19,782)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings including receivables financing facility		1,931,000	478,665
Repayments of borrowings including receivables financing facility		(1,780,293)	(496,026)
Repayments of borrowings – limited recourse		(5,264)	(6,332)
Lease repayments - principle		(3,599)	(3,201)
Lease repayments - interest		(779)	(879)
Finance costs - other		(34,015)	(28,720)
Dividends paid	2	(17,270)	(22,538)
Payments for shares bought back		(2,916)	-
Termination of US Sleever agreement		(5,121)	-
<b>Net cash inflow / (outflow) from financing activities</b>		<b>81,743</b>	(79,031)
Net (decrease) / increase in cash and cash equivalents		(4,565)	52,879
Cash and cash equivalents at the beginning of the year		244,616	192,467
Effect of exchange rate changes on cash and cash equivalents		407	(730)
<b>Cash and cash equivalents at the end of the year</b>	24	<b>240,458</b>	244,616
Cash and cash equivalents – continuing operations		227,636	
Cash and cash equivalents – discontinued operations	(i)	12,822	

(i) Refer to note 31 for cash flows of discontinued operations.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

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#### Definitions

The directors believe that EBITDAF, underlying EBITDAF and underlying NPAT provide the most meaningful indicators of the Group's underlying business performance. The directors utilise underlying NPAT as a measure to assess the performance of the segments.

These earnings measures are referenced throughout the notes to the financial statements. A reconciliation to statutory earnings is provided in note 3.

Underlying NPAT is statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

Significant items adjusted in deriving underlying NPAT are material items of revenue or expense that are unrelated to the underlying performance of the Group.

All profit measures refer to continuing operations of the Group unless otherwise stated.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

	CONSOLIDATED	
	2018	2017
	Cents per share	
<b>(a) Basic (loss) / earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the Company	(19.03)	7.89
From discontinued operation	(13.83)	(8.33)
Total basic (loss) / earnings per share attributable to the ordinary equity holders of the Company	(32.86)	(0.44)
<b>(b) Diluted (loss) / earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the Company	(18.52)	7.66
From discontinued operation	(13.47)	(8.09)
Total basic (loss) / earnings per share attributable to the ordinary equity holders of the Company	(31.99)	(0.43)
<b>(c) Underlying earnings / (loss) per share</b>		
From continuing operations attributable to the ordinary equity holders of the Company	12.30	(6.59)
<b>(d) Reconciliations of earnings used in calculating earnings per share</b>	\$'000	
<i>Basic (loss) / earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	(46,734)	19,257
From discontinued operation	(33,968)	(20,330)
<i>Diluted (loss) / earnings per share</i>		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	(46,734)	19,257
From discontinued operation	(33,968)	(20,330)
Underlying profit / (loss) attributable to the ordinary equity holders of the Company from continuing operations	30,202	(16,095)
<b>(e) Weighted average number of shares used as the denominator</b>	Number of shares '000	
Weighted average number used in calculating basic and underlying earnings per share	245,580	244,161
Adjustments for calculation of diluted earnings per share:		
Long term incentive schemes	6,066	7,162
Performance rights	653	-
Weighted average number used in calculating diluted earnings per share	252,299	251,323

## 1. Earnings Per Share

### Calculation methodology

Basic earnings per share and underlying earnings per share are calculated by dividing the profit measure attributable to owners of the Company, by the weighted average number of ordinary shares outstanding during the financial year and excluding treasury shares.

Diluted earnings per share are calculated the same way as basic earnings per share including the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Options granted are considered to be potential ordinary shares and taken into account in the determination of diluted earnings per share. They are not included in the determination of basic earnings per share.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 2. Dividends Paid and Proposed

	Cents per share	Total amount \$'000	Franking percentage	Date of payment
2017 Final dividend paid	3.5	8,943	100%	10 October 2017
2018 Interim dividend paid	3.5	9,001	100%	6 April 2018
2018 Final dividend proposed	4.0	10,217	100%	10 October 2018

The final dividend proposed is subject to variations in the number of shares up to record date. This dividend has not been recognised as a liability as at 30 June 2018 and will be recognised in subsequent consolidated financial statements.

Franking credits available at 30 June 2018 are \$29.2m (2017: \$10.9m).

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

### 3. Segment Report

	Business Energy Australia		Generation Assets		Other		Total	
\$'000	2018	2017	2018	2017	2018	2017	2018	2017
External revenue to customers and other income	3,194,073	2,647,784	71,453	131,855	15,057	10,593	3,280,583	2,790,232
Internal segment revenue	-	-	20,045	13,932	7,202	4,681	27,247	18,613
Segment revenue and other income	3,194,073	2,647,784	91,498	145,787	22,259	15,274	3,307,830	2,808,845
Expenses	(3,122,163)	(2,594,425)	(47,721)	(104,077)	(40,448)	(32,158)	(3,210,332)	(2,730,660)
<b>EBITDAF</b>	<b>71,910</b>	<b>53,359</b>	<b>43,777</b>	<b>41,710</b>	<b>(18,189)</b>	<b>(16,884)</b>	<b>97,498</b>	<b>78,185</b>
Depreciation and amortisation	(9,840)	(7,610)	(13,409)	(14,107)	(6,975)	(5,472)	(30,224)	(27,189)
Impairment expense	(1,034)	-	-	-	-	-	(1,034)	-
Net fair value (loss) / gain on financial instruments designated at fair value through profit or loss	(108,899)	36,276	(254)	14,653	-	-	(109,153)	50,929
<b>Results from operating activities</b>	<b>(47,863)</b>	<b>82,025</b>	<b>30,114</b>	<b>42,256</b>	<b>(25,164)</b>	<b>(22,356)</b>	<b>(42,913)</b>	<b>101,925</b>
Share of net profit / (loss) of associates and joint ventures accounted for using the equity method	-	-	-	-	195	(298)	195	(298)
Finance income	2,154	2,746	562	468	384	397	3,100	3,611
Finance expenses	(10,854)	(7,784)	(15,488)	(15,855)	(969)	(848)	(27,311)	(24,487)
<b>(Loss) / profit before income tax</b>	<b>(56,563)</b>	<b>76,987</b>	<b>15,188</b>	<b>26,869</b>	<b>(25,554)</b>	<b>(23,105)</b>	<b>(66,929)</b>	<b>80,751</b>
Income tax benefit / (expense)							20,195	(61,494)
(Loss) / profit from continuing operations							(46,734)	19,257
Loss from discontinued operations (attributable to equity holders of the Company)							(33,968)	(20,330)
<b>Statutory loss for the year attributable to equity holders of the Company</b>							<b>(80,702)</b>	<b>(1,073)</b>
<b>Underlying NPAT from continuing operations</b>							<b>30,202</b>	<b>(16,095)</b>

All segment activity takes place in Australia and the United States of America

- (i) Profit and loss information for the Business Energy US segment classified as a discontinued operation is reported through to the chief operational decision maker of the consolidated entity as shown in note 31.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 3. Segment Report (continued)

\$'000	Note	2018	2017
<b>Statutory loss after tax attributable to equity holders of the Company</b>		<b>(80,702)</b>	<b>(1,073)</b>
<i>Adjusted for the following items:</i>			
Net unrealised change in fair value of financial instruments designated at fair value through profit or loss after tax		<b>76,407</b>	(35,650)
Share of net (profit) / loss of associates and joint ventures accounted for using the equity		<b>(195)</b>	298
Loss from discontinued operation (attributable to equity holders of the Company)	31	<b>33,968</b>	20,330
<b>Other significant items</b>			
Impairment of SME customer acquisition costs	(i)	<b>1,034</b>	-
Tax benefit on other significant items	(ii)	<b>(310)</b>	-
<b>Underlying NPAT continuing operations</b>		<b>30,202</b>	<b>(16,095)</b>

- (i) Impairment of SME single site customer acquisition costs held for sale at 30 June 2018.  
(ii) Tax effect of the above other significant items.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

### 3. Segment Report (continued)

	Business Energy US <sup>(i)</sup>		Business Energy Australia		Generation Assets		Other		Note	Total	
\$'000	2018	2017	2018	2017	2018	2017	2018	2017		2018	2017
<b>Assets</b>											
Total segment assets	-	145,413	673,050	899,581	436,792	429,303	80,082	88,171		1,189,924	1,562,468
Current and deferred tax assets										2,974	13,850
Assets classified as held for sale									31	167,235	-
<b>Total assets</b>										<b>1,360,133</b>	<b>1,576,318</b>
<b>Liabilities</b>											
Total segment liabilities	-	143,576	641,319	405,829	227,602	230,464	32,529	34,101		901,450	813,970
Current and deferred tax liabilities										57,095	196,468
Liabilities directly associated with assets classified as held for sale									31	152,088	-
<b>Total liabilities</b>										<b>1,110,633</b>	<b>1,010,438</b>

### SEGMENT DESCRIPTION

An operating segment is a distinguishable component of an entity that engages in business activity from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other segments of the same entity), and whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment.

Management has determined the operating segments based on reports reviewed by the Managing Director who is the chief operating decision maker for the Consolidated Entity. The Managing Director regularly receives financial information on the underlying profit of each operating segment so as to assess the ongoing performance of each segment and to enable a relevant comparison to budget and forecast underlying profit.

#### Business segments:

Business Energy Australia  
Business Energy US  
Generation Assets  
Other

#### Products and services:

Electricity sales to business customers in Australia  
Electricity sales to business and residential customers (FY2017 only) in the United States of America  
Gas-fired power generation assets and delivery of power generation solutions, from the initial concept through to development and operations  
Gas, Metering, Data Analytics, Lighting Solutions and Corporate

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets is \$446.6m for Australia (2017: \$440m) and \$Nil for the United States (2017: \$60.9m).

Segment assets and liabilities are measured in the same way as in the financial statements. Both assets and liabilities are allocated based on the operations of the segment and the physical location of the asset. The Group's current and deferred tax balances are not considered to be a part of a specific segment but are managed by the Group's central corporate function. All revenue from generation assets and other operations is earned in Australia.

- (i) Balance sheet information for the Business Energy US segment classified as a discontinued operation is reported through to the chief operational decision maker of the consolidated entity as shown in note 31.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 4. Revenue

Revenue is recognised when performance obligations under relevant customer contracts are completed. Performance obligations may be completed at a point in time or over time.

In the following table revenue is disaggregated by major product or service line and by timing of revenue recognition. Revenue recognised in the discontinued Business Energy US segment is entirely generated within the US market whilst revenue recognised in all other segments is generated in Australia. Refer to note 31 for further details on the discontinued operations.

No single customer amounts to 10% or more of the consolidated entity's total external revenue for either the current or comparative period.

\$'000	Business Energy Australia		Generation Assets		Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Major product / service lines</b>								
Sale of electricity	<b>3,068,351</b>	2,495,553	-	-	-	-	<b>3,068,351</b>	2,495,553
Electricity generation	-	-	<b>44,964</b>	99,026	-	-	<b>44,964</b>	99,026
Commodity product sales	<b>125,722</b>	152,234	<b>25,719</b>	30,241	-	-	<b>151,441</b>	182,475
Energy solutions products and services	-	-	-	-	<b>14,368</b>	7,548	<b>14,368</b>	7,548
Consulting fees	-	-	<b>140</b>	264	-	785	<b>140</b>	1,049
Other revenue	-	-	<b>96</b>	2,139	<b>116</b>	1,623	<b>212</b>	3,762
	<b>3,194,073</b>	2,647,787	<b>70,919</b>	131,670	<b>14,484</b>	9,956	<b>3,279,476</b>	2,789,413
<b>Timing of revenue recognition</b>								
Recognised at a point in time	<b>125,722</b>	152,234	<b>70,919</b>	131,670	<b>13,424</b>	7,239	<b>210,065</b>	291,143
Recognised over time	<b>3,068,351</b>	2,495,553	-	-	<b>1,060</b>	2,717	<b>3,069,411</b>	2,498,270
	<b>3,194,073</b>	2,647,787	<b>70,919</b>	131,670	<b>14,484</b>	9,956	<b>3,279,476</b>	2,789,413

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 4. Revenue (continued)

##### Recognition and measurement

###### i) *Sale of electricity*

Revenue is recognised at the amount of consideration to which the Group is entitled, excluding amounts collected on behalf of third parties (i.e. duties and sales taxes). Using the practical expedient, the Group recognises revenue in respect to electricity sales over time as there is a right to invoice when the customers have consumed the performance obligation of electricity supply. Electricity sales revenue from customer sales contracts is recognised on measurement of electrical consumption (KWh) at the metering point, as specified in each contractual agreement, and is billed monthly in arrears. The transaction price is the contracted price for the electricity consumed during the period. When the consideration receivable is subject to variability, such as prompt payment discount or estimated meter reads, an assessment is performed to determine whether it is highly probable that the receivables or accrued income will be received. At each balance date, sales and receivables include an amount of sales delivered to customers but not yet billed and recognised as accrued income.

###### ii) *Electricity generation*

Electricity generation revenue is recognised from the generation of electricity at the point when the electricity has been supplied or the off-take performance obligation has been met and there will not be a significant reversal of revenue. Revenue received from off-take agreements provides a fixed revenue stream for the respective power station. Revenue on these contracts is recognised on a daily basis over the contract term. The transaction price is the contracted price for the electricity generated and sold during the period. At each balance date, sales and receivables include an amount of revenue for which performance obligations have been met under the respective contracts but have not yet settled. These amounts are recognised as accrued income. ERM Power has elected to apply the practical expedient available under AASB 15 to not disclose any future unsatisfied performance obligations under respective off-take agreements.

###### iii) *Energy solutions products and services*

Energy solutions products and services includes the sale of products and services such as lighting solutions, data analytics and energy monitoring, metering and demand response income. Revenue is apportioned to these contracts based on the estimated stand-alone selling price of goods or services provided. Revenue from customer sales contracts is recognised at the point that relevant performance obligations are satisfied, which will vary dependent on the product or service provided and may include product installation or access to energy management software. For any contracts that are recurring in nature such as annual subscriptions, an income in advance liability is recorded within accrued expenses for revenue received in advance and revenue is recognised over the term of the contract.

###### iv) *Consulting fees and other revenue*

Revenue is apportioned to these contracts based on the estimated stand-alone selling price of goods or services provided. Consulting fee revenue and other income are recognised at the point that relevant performance obligations are satisfied. For any contracts that are recurring in nature such as annual licences, a liability is recorded for revenue received in advance and revenue is recognised over the term of the contract.

###### v) *Renewable energy certificates*

Revenue from the sale of renewable energy certificates is recognised when the relevant contractual performance obligations have been met. These performance obligations will generally include transfer of scheme certificates from the scheme registry of the seller to the scheme registry of the buyer. The stand-alone selling price for certificates sold is referenced within each sales contract. Sale of renewable energy certificates is included in commodity product sales.

###### vi) *Sale of gas*

Revenue from the sale of gas to wholesale market counterparties is recognised at the point at which the title passes to the buyer. Sale of gas revenue is included in commodity product sales.

For further information on contract assets and liabilities, refer to notes 10 and 19.

##### Key judgments and estimates

###### *Accrued income receivable*

Revenue from the sale of electricity is estimated where a customer invoice has not been raised at balance date. Where an invoice is raised shortly after balance date or customer meter data is available, this data is used to form the estimate of revenue. Where an invoice is not raised immediately after balance date and customer meter data is not available the revenue estimate is derived from an estimate of average daily electricity usage based on historical patterns as well as average pricing. Further information is contained in Note 10.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 4. Revenue (continued)

##### Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Continuing operations</b>		
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i>		
Sale of electricity	1,195	-
Electricity generation	10	-
Energy solutions products and services	1,843	315
Other revenue	150	10
	<b>3,198</b>	<b>325</b>

#### 5. Expenses

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Continuing operations</b>		
Cost of electricity sales	2,960,504	2,466,630
Cost of electricity generation	6,786	38,934
Cost of commodity products sold	148,825	143,425
Employee benefits expense	42,037	39,777
Share based payments	2,774	3,527
Other expenses	22,159	19,754
	<b>3,183,085</b>	<b>2,712,047</b>
<i>Included in the above employee expense is:</i>		
Defined contribution superannuation expense	2,734	3,049

##### Recognition and measurement

Cost of sales is recognised as those costs directly attributable to the goods or services sold and includes the costs of electricity, materials and associated distribution expenses. Electricity costs are based upon spot prices for electricity and the outcomes of derivative financial instruments entered into for the purpose of risk management (refer to note 22). Included within cost of sales are total net realised gains on the settlement of derivative financial instruments (2018: \$91.5m, 2017: \$573.5m).

Employee benefits expense includes movement in recognition and measurement of related liabilities such as annual leave and long service leave. Refer to note 20.

Share based payments are provided to employees via employee and executive equity plans.

The fair value of options or shares issued to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised in the option reserve or share-based payment reserve over the period during which the employees become unconditionally entitled to the equity. When the shares are issued, or the options exercised, the value is transferred to contributed equity.

##### Key judgments and estimates

###### Share-based payment transactions

The Company measures the cost of shares and options issued to employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. Details regarding the terms and conditions upon which the instruments were granted and methodology for determining fair value at grant date are available in note 33.

The fair value of the equity instruments includes non-market vesting conditions. Management estimates the number of shares that are expected to be vested based on the probability of non-market vesting conditions being met.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 6. Net Fair Value (Loss) / Gain on Financial Instruments Designated at Fair Value through Profit and Loss

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Continuing operations</b>		
<b>Unrealised</b>		
Electricity derivative contracts	(109,153)	51,009
Hedge ineffectiveness	-	(80)
	<b>(109,153)</b>	<b>50,929</b>

#### Recognition and measurement

The Group accounts for certain derivative financial instruments such as cash flow hedges with corresponding unrealised fair value movements recognised in the cash flow hedge reserve. Any unrealised gain or loss on other instruments that are not hedge accounted and any ineffective portion of hedge accounted instruments is recognised directly in profit or loss. Refer note 13 for further information on which derivative financial instruments are not hedge accounted.

#### Key judgments and estimates

##### *Designation of instruments*

The designation of instruments as either held for trading or hedging may affect the amount of fair value gains and losses recognised in profit and loss. Fair value movements on instruments held for trading are not deferred within the cash flow hedge reserve. Further information on the designation of financial instruments is contained in note 13.

##### *Valuation of derivative financial instruments*

The valuation of financial instruments may affect the amount of fair value movements recognised in profit and loss. Further information on the valuation of financial instruments is contained in note 23.

#### 7. Net Finance Expense

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Continuing operations</b>		
<b>Finance income</b>		
Interest income	3,100	3,611
	<b>3,100</b>	<b>3,611</b>
<b>Finance costs</b>		
Borrowing costs – lease liabilities	733	831
Borrowing costs – bank loans	11,542	12,054
Borrowing costs – receivables financing facility	5,145	3,418
Borrowing costs – convertible notes	3,937	3,799
Other borrowing costs	5,954	4,385
	<b>27,311</b>	<b>24,487</b>

#### Recognition and measurement

Interest revenue and expenses are recognised on a time proportional basis using the effective interest rate method applicable to financial assets and liabilities. Other borrowing costs includes bank guarantee charges associated with the Group's Australian electricity retailing operation.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 8. Income Tax

	Note	CONSOLIDATED	
		2018	2017
		\$'000	\$'000
<b>(a) Income tax (benefit) / expense</b>			
Income tax comprises:			
Current tax expense		8,041	32,971
Deferred tax (benefit) / expense		(15,663)	20,846
Adjustment to current and deferred tax of prior periods		(277)	(85)
<b>Income tax (benefit) / expense</b>		<b>(7,899)</b>	<b>53,732</b>
<b>Income tax (benefit) / expense is attributable to:</b>			
(Loss) / profit from continuing operations		(20,195)	61,494
Loss from discontinued operations	31	12,296	(7,762)
		<b>(7,899)</b>	<b>53,732</b>
<b>(b) Numerical reconciliation of prima facie tax benefit to prima facie tax</b>			
(Loss) / profit from continuing operations		(66,929)	80,751
Loss from discontinued operations	31	(21,672)	(28,092)
		<b>(88,601)</b>	<b>52,659</b>
Income tax (benefit) / expense calculated at 30%		(26,580)	15,798
Other income taxes		949	205
Net effect of expenses / (income) that are not deductible / (non-assessable) in determining taxable profit (excluding Clean Energy Regular shortfall charge)		301	1,919
Clean Energy Regulator shortfall (refund) / charge	(i)	(388)	37,050
Write-down of US deferred tax balance	21/(ii)	10,279	-
Adjustment to deferred tax of prior periods		(277)	(85)
Difference in overseas tax rates		211	(1,155)
Change in overseas tax rate	(iii)	7,606	-
<b>Income tax (benefit) / expense</b>		<b>(7,899)</b>	<b>53,732</b>
<b>(c) Amounts recognised directly in other comprehensive income</b>			
Increase in equity due to current and deferred amounts charged directly to equity during the period:			
Net tax effect of amounts charged to cash flow hedge reserve		95,902	(49,960)
Net tax effect of amounts charged to share capital		28	-
		<b>95,930</b>	<b>(49,960)</b>

- (i) In 2017, the Company took the commercial decision to incur a non-deductible charge of \$65 per certificate in lieu of surrendering 1.9m large scale generation certificates. The total cost was \$123m before tax. In 2018, the Company surrendered a parcel of large scale generation certificates and received a non-assessable refund of the previous charge of \$1.3m before tax.
- (ii) Estimated non-recoverability of US deferred tax losses.
- (iii) Change in US federal tax rate from 35% to 21% effective from 1 January 2018.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 8. Income Tax (continued)

##### Recognition and measurement

Income tax or income tax benefit for the period is the tax payable on the current period's taxable income based on the prevailing income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

##### Key judgments and estimates

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

#### 9. Cash Flow Information

##### a) Reconciliation of Cash Flows from Operating Activities

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Net loss after tax	(80,702)	(1,073)
<i>Adjustments for:</i>		
Depreciation and amortisation of non-current assets	46,911	38,404
Impairment expense	1,034	-
Share based payment expense	2,774	3,527
Net unrealised fair value losses / (gains) on financial instruments and inventory	99,582	(34,541)
Gain on the sale of discontinued operations	-	(10,851)
Share of (profits) / loss of associates	(195)	298
Loss on the sale of non-current assets	137	-
Net exchange differences	(665)	96
Finance costs	42,056	31,091
<i>Transfers to provisions:</i>		
Employee entitlements	582	256
<i>Changes in operating assets and liabilities:</i>		
Increase in trade and other receivables	(37,446)	(40,936)
Increase in other assets	(9,436)	(2,963)
Increase in inventories	(37,737)	(30,725)
Increase in deferred tax assets recognised in profit or loss	(8,459)	(169)
Changes in variation margin account	(118,723)	69,181
(Decrease) / increase in deferred tax liabilities recognised in profit or loss	(5,543)	21,015
(Decrease) / increase in current tax liability	(21,062)	18,403
Increase in trade and other payables	84,113	90,679
<b>Net cash (used in) / provided by operating activities</b>	<b>(42,779)</b>	<b>151,692</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 1: Financial Performance

#### 9. Cash Flow Information (continued)

##### b) Net Debt Reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Cash and cash equivalents – continuing operations	227,636	244,616
Cash and cash equivalents – discontinued operations	12,822	-
Borrowings – repayable within one year	(150,831)	-
Borrowings – limited recourse – repayable within one year	(8,904)	(8,264)
Borrowings – limited recourse – repayable after one year	(176,567)	(180,653)
<b>Net (debt) / cash</b>	<b>(95,844)</b>	<b>55,699</b>
Cash and cash equivalents	240,458	244,616
Gross debt – fixed interest rates	(126,750)	(131,874)
Gross debt – variable interest rates	(209,552)	(57,043)
<b>Net (debt) / cash</b>	<b>(95,844)</b>	<b>55,699</b>

	Other assets	Liabilities from financing activities		
	Cash	Borrowings due	Borrowings due	Total
	\$'000	within 1 year	after 1 year	\$'000
	\$'000	\$'000	\$'000	\$'000
<b>Net debt as at 30 June 2017</b>	244,616	(8,264)	(180,653)	55,699
Cash flows	(4,158)	(151,347)	5,904	(149,601)
Other non-cash movements	-	(124)	(1,818)	(1,942)
<b>Net debt as at 30 June 2018</b>	<b>240,458</b>	<b>(159,735)</b>	<b>(176,567)</b>	<b>(95,844)</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 10. Trade and Other Receivables at Amortised Cost

The majority of trade and other receivables relate to electricity sales customers. Trade receivables are non-interest bearing and are generally 14 to 30 day terms.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
<b>Current</b>		
Trade and other receivables	38,888	66,906
Accrued income	281,363	294,041
	<b>320,251</b>	<b>360,947</b>

#### Recognition and measurement

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Collectability is reviewed on an ongoing basis. For trade receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables. The amount of the impairment loss is recognised in the income statement.

Accrued income receivable represents electricity amounts due to be invoiced after 30 June 2018 and wholesale counterparty settlements due to be accrued and received after 30 June 2018.

#### Key judgments and estimates

##### *Accrued income receivable*

Accrued electricity sales revenue requires estimates of average daily usage based on historical patterns as well as average pricing and consumption pattern estimates where no actual meter data is available. A large portion of accrued income receivable is measured based on actual billed electricity in the following month whilst a smaller portion is based on estimated meter data where the customer meter is read less frequently.

#### Credit risk

Credit risk refers to the loss that would occur if a debtor or other counterparty fails to perform under its contractual obligations. The carrying amounts of trade and other receivables recognised at balance date best represents the Group's maximum exposure to credit risk at balance date. The Group seeks to limit its exposure to credit risks as follows:

- conducting appropriate due diligence on counterparties before entering into arrangements with them;
- depending on the outcome of the credit assessment, obtaining collateral with a value in excess of the counterparties' obligations to the Group – providing a 'margin of safety' against loss; and
- for derivative counterparties, using primarily high credit quality counterparties, in addition to utilising ISDA master agreements with derivative counterparties in order to limit the exposure to credit risk.

The credit quality of all financial assets is consistently monitored in order to identify any potential adverse changes.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 10. Trade and Other Receivables at Amortised Cost (continued)

##### Credit risk (continued)

##### Concentrations of credit risk

The Group minimises concentrations of credit risk in relation to debtors by undertaking transactions with a large number of customers from across a broad range of industries within the business segments in which the Group operates, such that there are no significant concentrations of credit risk within the Group at balance date. Credit risk to trade debtors is managed through setting normal payment terms of up to 30 days and through continual risk assessment of debtors with material balances. Credit risk to electricity debtors is managed through system driven credit management processes. The process commences after due date. For some debtors the Group may also obtain security in the form of guarantees, deeds of undertaking, or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

The Company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit losses also incorporates forward looking information. The loss allowance provision as at 30 June 2018 is determined as follows:

	Total \$'000	< 30 days \$'000		31-60 days \$'000		61-120 days \$'000		> 120 days \$'000	
		Trade	Other <sup>(i)</sup>	Trade	Other <sup>(i)</sup>	Trade	Other <sup>(i)</sup>	Trade	Other <sup>(i)</sup>
<b>2018</b>									
<b>Consolidated</b>									
Expected loss rate		0% - 5%	-	10%	-	40%-90%	-	Up to 100%	-
Gross carrying amount	41,531	37,087	182	1,319	-	955	-	1,988	-
Loss allowance provision <sup>(ii)</sup>	(2,643)	(667)	-	(131)	-	(463)	-	(1,382)	-
Net receivables	38,888	36,420	182	1,188	-	492	-	606	-
Accrued income	281,363	281,363	-	-	-	-	-	-	-
<b>2017</b>									
<b>Consolidated</b>									
Expected loss rate		0% - 8%	-	16%	-	50%-90%	-	Up to 100%	-
Gross carrying amount	70,324	63,938	497	2,659	23	1,132	46	1,428	601
Loss allowance provision <sup>(ii)</sup>	(3,418)	(1,265)	-	(418)	-	(398)	-	(1,337)	-
Net receivables	66,906	62,673	497	2,241	23	734	46	91	601
Accrued income	294,041	294,041	-	-	-	-	-	-	-

(i) Other receivables are neither past due or impaired and relate principally to counterparty receivables and employee shareholder loans which are subject to loan deeds.

(ii) Of the above loss allowance provision \$2.6m (2017: \$3.4m) relate to receivables arising from contracts with customers.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 11. Inventories

	Note	CONSOLIDATED	
		2018 \$'000	2017 \$'000
Work in progress		246	531
Stock on hand		914	485
Renewable energy certificates – at cost		67,150	38,115
Renewable energy certificates – at fair value less cost to sell	(i)	11,993	1,415
Gas in storage		77	96
Diesel fuel		1,382	1,615
		<b>81,762</b>	<b>42,257</b>

(i) Renewable energy certificates designated as commodity broker trader inventory are measured at fair value less costs to sell.

#### Recognition and measurement

##### *Renewable energy certificates*

Renewable energy certificates held by the Group are accounted for as commodity inventories. The Group participates in the purchase and sale of a range of renewable energy certificates, including both mandatory and voluntary schemes.

Purchased renewable energy certificates are initially recognised at cost within inventories on settlement date. Subsequent measurement is at the lower of cost or net realisable value, with losses arising from changes in realisable value being recognised in the income statement in the period of the change.

Renewable energy certificates held for trading are held at fair value less costs to sell.

##### *Other inventory*

Stock, materials and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### Key judgments and estimates

##### *Renewable energy certificates held for trading*

Renewable energy certificates that are designated as held for trading are initially recognised at cost and are subsequently recognised at fair value with movements in fair value taken up through profit and loss in the net fair value gain on financial instruments designated at fair value through profit and loss line until settlement at which time the gain or loss is recognised in cost of goods sold. Certificates are designated at the initial trade date on a deal by deal basis and segregated from other certificates held for the purposes of surrender under applicable renewable energy schemes.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 12. Other Assets

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Prepayments	4,119	3,985
Security and other deposits	10,185	1,573
Other	297	622
	<b>14,601</b>	<b>6,180</b>

#### 13. Derivative Financial Instruments

The Group is party to derivative financial instruments in the normal course of business acquired in order to manage exposure to fluctuations in electricity prices and interest and foreign exchange rates in accordance with the Group's financial risk management policies.

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Current assets</b>		
Electricity and commodity derivatives	73,127	325,131
Foreign exchange derivatives	-	30
	<b>73,127</b>	<b>325,161</b>
<b>Non-current assets</b>		
Electricity and commodity derivatives	25,968	81,445
	<b>25,968</b>	<b>81,445</b>
<b>Current liabilities</b>		
Electricity and commodity derivatives	28,239	33,889
	<b>28,239</b>	<b>33,889</b>
<b>Non-current liabilities</b>		
Electricity and commodity derivatives	55,702	33,641
Interest rate swaps	29,481	33,812
	<b>85,183</b>	<b>67,453</b>

#### Recognition and measurement

Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The gain or loss from re-measurement of hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is settled.

Certain derivative instruments do not qualify for hedge accounting. The change in the fair value of any derivative instrument that does not qualify for hedge accounting is recognised immediately in profit or loss. Any realised gains or losses on settlement of derivatives that do not qualify for hedge accounting are recognised immediately in profit and loss and are included within cost of sales regardless of the original settlement date of the instrument.

Derivatives that are not hedge accounted include futures, bilateral written options, market traded caps and swaps and any derivative held for trading purposes or to manage renewable certificate price risk including forward purchase agreements held for trading. All derivatives used in the Group's US Business Energy operations are not hedge accounted.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 13. Derivative Financial Instruments (continued)

##### *Recognition of day one gain or loss on derivative financial instruments*

Evidence of fair value of an investment at initial recognition is often provided by the transaction price, unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets. Such financial instruments are initially recognised at the transaction price which is the best indicator of fair value, although the market value derived by independent valuers may differ. The difference between the transaction price and the market value (the day one gain or loss), is not recognised immediately for accounting purposes in profit or loss and is instead recognised through profit or loss progressively as the instrument is settled. Any subsequent measurement of the instrument excludes the balance of the deferred day one gain or loss.

##### **Key judgments and estimates**

##### *Fair value of financial instruments*

The fair value of financial assets and financial liabilities are estimated for recognition and measurement and for disclosure purposes. Management uses its judgement in selecting appropriate valuation techniques for financial instruments not quoted in active markets. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to note 23 for further details of valuation methods used by the Group to determine fair value.

#### 14. Hedge Accounting

Contracts are entered into with individual parties in the normal course of business in order to economically hedge exposure to fluctuations in electricity prices, foreign currency and interest rates. These derivative instruments may meet the requirements for hedge accounting. The instruments include OTC swaps, options, swaptions, caps and other risk management instruments. Settlement of the contracts require exchange of cash for the difference between the contracted and spot market prices. The contracts are measured at fair value and the resultant gains or losses that effectively hedge designated risk exposures are deferred within the cash flow reserve.

##### **Electricity derivatives used for hedging**

The below carrying values represent the total value of hedge instruments used to hedge electricity price risk recognised on the Group's balance sheet together with maturity of these instruments and associated nominal volume. The value of these instruments excludes the ineffective portion that has not been recognised in the cash flow hedge reserve.

	Assets		Liabilities		Nominal hedge volume <sup>(iii)</sup>	
	Carrying value <sup>(i)</sup>		Carrying value <sup>(i)</sup>			
	2018	2017	2018	2017	2018	2017
Net asset / (liability)	\$'000	\$'000	\$'000	\$'000	TWh	TWh
12 months or less	63,763	316,631	(12,149)	(10,157)	14	12
More than 12 months	13,936	69,614	(28,093)	(15,219)	3	4
	77,699	386,245	(40,242)	(25,376)	17	16

(i) Carrying value of hedging instruments only.

(ii) Nominal hedge volumes exclude volumes for other instruments that provide an economic hedge but are not hedge accounted for, such as exchange based instruments and instruments used in the Group's US operations.

The Group uses cash flow hedges to mitigate the risk of variability in electricity prices. The instruments that are hedge accounted include OTC swaps, options, swaptions, caps and other eligible risk management instruments used in the Groups Australian business energy operations.

Hedge rates for these instruments vary by product type, time period and region and range from \$10 to \$300 per MWh.

Instruments held for trading, exchange traded instruments (such as futures contracts), written options and all instruments related to renewable energy certificates and our US operations are not hedge accounted. The above nominal hedge volumes exclude volumes associated with these instruments.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 14. Hedge Accounting (continued)

The movement in the hedged items for the year ended 30 June 2018 was (\$319.7m) (2017: 166.6m). The movement in hedge instruments recognised in reserves for the year ended 30 June 2018 was (\$319.7m) (2017: \$166.5m). There was no hedge ineffectiveness recognised for the year ended 30 June 2018 (2017: \$0.1m). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Effectiveness is assessed against forecast electricity purchase requirements. Where the portfolio volume of the cash flow hedge contracts is in excess of forecast electricity purchase requirements for a particular time period an amount of ineffectiveness is recognised immediately in profit or loss.

During the year ended 30 June 2018 amounts accumulated to the cash flow hedge reserve of \$88.0m (2017: \$453.2m) were settled and recognised as a gain in profit and loss.

#### Interest rate swaps used for hedging

The Neerabup partnership has limited recourse, variable interest rate project finance in place. This variable interest has been swapped into fixed.

Swaps currently in place for the Neerabup partnership cover approximately 97% (2017: 97%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due as set out below.

The fixed interest rate is 7.189% (2017: 7.189%) and the variable rate is 1.1% above the BBSY rate which at the end of the reporting period was 1.95% (2017: 2.05%).

There was no hedge ineffectiveness in the current or prior year and the movement of the fair value of the hedged item and instrument deferred in the hedge reserve was \$4.3m (2017: 7.8m).

	Carrying value	
	2018	2017
	\$'000	\$'000
<b>Swap liabilities</b>		
12 months or less	6,272	6,870
1-2 years	5,782	6,033
2-5 years	13,278	13,918
More than 5 years	4,149	6,991
	<b>29,481</b>	<b>33,812</b>

The above table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments. The notional amount of debt covered by the interest rate swap in place at 30 June 2018 was \$126.8m (2017: \$131.8m). During the year ended 30 June 2018 amounts accumulated to the cash flow hedge reserve of \$6.8m (2017: \$7.0m) were settled and recognised in profit and loss.

#### Recognition and measurement of derivatives hedge accounted

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 15. Property, Plant and Equipment

CONSOLIDATED	Note	Land	Capital work in progress	Plant and equipment	Furniture, fittings and improvements	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>2018</b>						
Cost		22,963	669	508,601	14,585	546,818
Accumulated depreciation and impairment		(447)	-	(146,921)	(8,768)	(156,136)
Net carrying amount at 30 June 2018		<u>22,516</u>	<u>669</u>	<u>361,680</u>	<u>5,817</u>	<u>390,682</u>
Opening net carrying amount at 1 July 2017		22,516	5,549	359,141	4,180	391,386
Exchange differences		-	-	9	22	31
Additions		-	566	12,254	3,336	16,156
Disposals		-	-	(315)	(15)	(330)
Transfers		-	(5,446)	5,005	441	-
Depreciation		-	-	(13,926)	(1,866)	(15,792)
Assets included in a disposal group classified as held for sale	31	-	-	(488)	(281)	(769)
Closing net carrying amount at 30 June 2018		<u>22,516</u>	<u>669</u>	<u>361,680</u>	<u>5,817</u>	<u>390,682</u>
<b>CONSOLIDATED</b>		<b>Land</b>	<b>Capital work in progress</b>	<b>Plant and equipment</b>	<b>Furniture, fittings and improvements</b>	<b>Total</b>
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>2017</b>						
Cost		22,963	5,549	492,532	11,483	532,527
Accumulated depreciation and impairment		(447)	-	(133,391)	(7,303)	(141,141)
Net carrying amount at 30 June 2017		<u>22,516</u>	<u>5,549</u>	<u>359,141</u>	<u>4,180</u>	<u>391,386</u>
Opening net carrying amount at 1 July 2016		22,516	5,288	358,644	4,818	391,266
Exchange differences		-	-	(5)	(5)	(10)
Additions		-	5,442	9,897	803	16,142
Disposals		-	-	(55)	-	(55)
Transfers		-	(5,181)	5,095	24	(62)
Depreciation		-	-	(14,435)	(1,460)	(15,895)
Closing net carrying amount at 30 June 2017		<u>22,516</u>	<u>5,549</u>	<u>359,141</u>	<u>4,180</u>	<u>391,386</u>

Capital work in progress relates to capitalised costs for power station projects.

One of the Group's current generation assets, the Neerabup power station, is project financed by limited recourse debt, meaning the security of project lenders does not extend beyond the particular generation asset. The Group also raised funds for its equity investment in the Neerabup power station by issuing notes in 2008. Those notes are limited-recourse to the Group's interest in the Neerabup power station.

Refer note 25 for details regarding recourse and limited recourse borrowings of the Group.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 15. Property, Plant and Equipment (continued)

##### Recognition and measurement

Items of property, plant and equipment are initially measured at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

Capital work in progress comprises costs incurred to date on construction of power generation plants. Asset residual values and useful lives are reviewed and adjusted if appropriate at each balance date. Gains and losses on disposals are determined by comparing the proceeds to the carrying amount. These are included in the income statement.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised to each project is the effective interest rate applicable to the specific borrowings at a project level during the year.

##### Key judgments and estimates

###### Depreciation

Land and capital work in progress are not depreciated.

Depreciation on the other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	the lesser of the remaining lease term and the life of the asset
Motor vehicles	8 years
Power stations and power station components	1 – 50 years
Other plant and equipment	1 – 15 years
IT Equipment	1 – 3 years
Furniture and fittings	1 – 10 years

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 16. Intangible Assets

CONSOLIDATED	Note	Goodwill	Capital work in progress	Software internally generated	Software and other	Customer acquisition costs	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2018</b>							
Cost		6,454	1,478	27,913	5,224	29,853	70,922
Accumulated depreciation and impairment		-	-	(12,215)	(3,412)	(16,829)	(32,456)
Net carrying amount at 30 June 2018		6,454	1,478	15,698	1,812	13,024	38,466
Opening net carrying amount at 1 July 2017		26,806	91	13,521	3,258	45,702	89,378
Current period trailing commission sales and additions	(i)	-	-	-	-	36,401	36,401
Exchange differences		829	-	-	74	1,825	2,728
Additions		-	1,428	5,606	506	-	7,540
Disposals		-	-	-	(167)	-	(167)
Transfer		-	(41)	100	(59)	-	-
Amortisation		-	-	(3,529)	(1,159)	(23,488)	(28,176)
Impairment expense	(ii)	-	-	-	-	(1,034)	(1,034)
Assets included in a disposal group classified as held for sale	31/(iii)	(21,181)	-	-	(641)	(46,382)	(68,204)
Closing net carrying amount at 30 June 2018		6,454	1,478	15,698	1,812	13,024	38,466
<b>CONSOLIDATED</b>		<b>Goodwill</b>	<b>Capital work in progress</b>	<b>Software internally generated</b>	<b>Software and other</b>	<b>Customer acquisition costs</b>	<b>Total</b>
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2017</b>							
Cost		26,806	91	22,204	7,237	71,188	127,526
Accumulated depreciation and impairment		-	-	(8,683)	(3,979)	(25,486)	(38,148)
Net carrying amount at 30 June 2017		26,806	91	13,521	3,258	45,702	89,378
Opening net carrying amount at 1 July 2016		32,568	1,304	12,501	2,026	30,642	79,041
Current period trailing commission sales and additions	(i)	-	-	-	-	31,850	31,850
Exchange differences		(807)	-	-	(50)	(1,060)	(1,917)
Additions		-	8	3,813	1,330	-	5,151
Transfers		-	(1,221)	292	991	-	62
Amortisation		-	-	(3,085)	(1,039)	(15,488)	(19,612)
Assets included in a disposal group classified as held for sale and other disposals	31	(4,955)	-	-	-	(242)	(5,197)
Closing net carrying amount at 30 June 2017		26,806	91	13,521	3,258	45,702	89,378

(i) Refer to note 20 for corresponding provision movement.

(ii) Impairment of the SME single site customer acquisition costs held for sale at 30 June 2018.

(iii) The \$68.2m intangible assets held for sale reflects management's decision to sell the US business Source Power & Gas (\$64.8m) and the single site SME customer contracts from the Business Energy Australia operations (\$3.4m).

Amortisation of intangible assets is included in depreciation and amortisation expense in the income statement.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 16. Intangible Assets (continued)

##### Recognition and measurement

###### *Goodwill*

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

###### *Software*

Computer software is either purchased or developed within the organisation to support business operations and generate customer revenue. Software assets are recorded at cost less accumulated amortisation and impairment losses.

###### *Customer acquisition costs*

The direct costs of establishing customer contracts are recognised as an asset when the customer contract is expected to provide a future economic benefit to the Group. Direct costs are amortised over an average contract term. In the event that a customer contract is not fulfilled and direct costs are not recoverable from the channel partner, a provision for impairment is recognised.

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Customer contracts that are acquired through a trailing commission agreement have a corresponding provision liability recognised. The provision liability is measured against forecast payments required and is discounted at a risk free rate.

##### Key judgments and estimates

###### *Purchase price allocation*

AASB 3 *Business Combinations* requires the recognition of fair value estimates of assets and liabilities acquired. By the nature of these estimates, judgements are made on the allocation of the purchase consideration. Goodwill is not amortised.

###### *Amortisation*

Amortisation of intangible assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Software	3 – 10 years
Customer acquisition costs (Australia)	Average contract term of 2 years (2017: 2 years)
Customer acquisition costs (United States)	Over individual contract term as trailing fee paid

#### 17. Impairment of Non-Financial Assets

The Group tests property, plant and equipment, intangibles and goodwill for impairment:

- at least annually for indefinite life intangibles and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

If the asset does not generate independent cash inflows and its value in use cannot be estimated to be close to its fair value, the asset is tested for impairment as part of the cash-generating unit (CGU) to which it belongs. Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less costs of disposal or value in use.

At 30 June 2018 the Group did not have any indefinite life intangible assets. The Group had goodwill of \$27.6m of which 77% related to the Group's US operations, which are classified as held for sale. Refer to note 31 for further details.

##### Recognition and measurement

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Impairment losses recognised for goodwill are not reversed. Impairment losses recognised in prior periods for other assets are assessed at each reporting date for any indications that the impairment loss has decreased or may no longer exist. The impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset and is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

There were no material reversals of impairment in the current or prior year.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 17. Impairment of Non-Financial Assets (continued)

##### Key judgments and estimates

At 30 June 2018 the Group has tested goodwill for impairment and made critical judgements with respect to assumptions used in the value in use assessment. These assumptions are set out below.

CGU	Goodwill allocation		Pre-tax discount rate		Years of cash flows included		Cumulative average growth rate <sup>(i)</sup>		Terminal growth rate	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	%	%	years	years	%	%	%	%
Energy Solutions <sup>(ii)</sup>	6,454	6,454	13.3%	14.9%	5	5	15%	39.2%	3%	2.5%

(i) Cumulative average growth rate is based on revenue.

(ii) Energy Solutions CGU goodwill includes the goodwill arising on the acquisition of Lumaed Pty Ltd and Greensense Pty Ltd. The acquisitions of these businesses were completed in the first half of 2016.

Management have utilised a value in use model to test goodwill for impairment at 30 June 2018 for the CGU. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Sensitivity analysis on reasonably possible changes to the discount rates or growth rates would result in an outcome where impairment would be required for the Energy Solutions goodwill as carrying value is equal to fair value. Directors and management have considered the likelihood of this change and have not updated the impairment calculation given the strong revenue growth for the current year, early lifecycle stage of the Energy Solutions business and availability of capital to fund organic growth.

#### 18. Lease Assets and Liabilities

##### Right of use lease assets

	Note	CONSOLIDATED	
		2018	2017
		\$'000	\$'000
Cost		15,876	17,278
Accumulated depreciation and impairment		(5,352)	(2,897)
Net carrying amount at 30 June 2018		10,524	14,381
Adoption of AASB 16 Leases		-	14,408
Opening net carrying amount at 1 July		14,381	-
Exchange differences		37	(23)
Additions		39	2,893
Amortisation		(2,943)	(2,897)
Classified as held for sale	31	(990)	-
Closing net carrying amount at 30 June		10,524	14,381

The Group leases office premises in Brisbane, Sydney, Melbourne, Perth, Newcastle and Houston. Income from the sublease of the Group's office premises for the year ended 30 June 2018 is \$431,110 (2017: \$385,277).

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 18. Lease Assets and Liabilities (continued)

##### Lease liabilities

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Current</b>		
Lease liabilities	3,681	3,605
<b>Non-current</b>		
Lease liabilities	13,588	18,375
<b>Total lease liabilities</b>	<b>17,269</b>	<b>21,980</b>
<b>Undiscounted lease payments to be received</b>		
1 year	451	433
2 years	469	451
3 years	488	469
4 years	510	488
5 years	204	510
>5 years	-	204
	<b>2,122</b>	<b>2,555</b>

Refer to Note 7 for interest expense on the lease liabilities and the consolidated statement of cash flows for the total cash outflow for the leases.

##### Recognition and measurement

###### *Leased assets*

Leased assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received.

On initial adoption of AASB 16 the Group has adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease assets that is impaired.

###### *Leased liabilities*

The lease liability is measured at the present value of the fixed and variable lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees for cleaning and other costs.

Lease modifications are accounted for as a new lease with an effective date of the modification.

##### Key judgments and estimates

###### *Amortisation*

Amortisation of leased assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives being the lesser of the remaining lease term and the life of the asset.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 19. Trade and Other Payables

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Current</b>		
Trade creditors and accruals	268,525	344,335
Other creditors	155,114	119,979
	<b>423,639</b>	<b>464,314</b>

#### Recognition and measurement

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

#### Key judgments and estimates

##### *Accrued electricity network costs*

Accrued electricity network costs payable requires estimates of average daily usage where no meter data is available. This usage estimate is combined with a customer specific network tariff to estimate accrued network costs.

#### 20. Provisions

	Note	CONSOLIDATED	
		2018	2017
		\$'000	\$'000
<b>Current</b>			
Employee benefits - annual leave	(i)	2,093	2,167
Customer acquisition cost provision		4,503	12,644
		<b>6,596</b>	<b>14,811</b>
<b>Non-current</b>			
Employee benefits - long service leave		1,880	1,573
Customer acquisition cost provision		2,342	21,033
		<b>4,222</b>	<b>22,606</b>
<b>Movements in provisions</b>			
Carrying amount at start of the year		37,417	27,426
Onerous contract provision derecognised on adoption of AASB16 Leases		-	(1,850)
Additional provision recognised and charged to profit and loss		2,669	2,165
Amounts used during the year		(2,087)	(2,598)
Current period trailing commission sales and additions provision recognised	(ii)	36,401	22,548
Current period commission sales paid		(26,096)	(9,019)
Classified as held for sale	31	(39,181)	(242)
Exchange differences		1,695	(1,013)
		<b>10,818</b>	<b>37,417</b>

(i) The entire amount of the annual leave provision is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. In addition, based on past experience, the Group expects all employees to take the full amount of accrued leave or require payment within the next 12 months.

(ii) Corresponding amount capitalised as an intangible asset.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 20. Provisions (continued)

##### Recognition and measurement

###### *Commission payments*

Customer contracts that are acquired through commission agreements have a corresponding provision liability recognised. The provision liability is measured against forecast payments required and is discounted at a risk free rate.

###### *Employee benefits*

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within 12 months of balance date are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salary levels, projected employee movements and periods of service. Expected future payments are discounted using the G100 discount rate for corporate bonds at balance date that matches, as closely as possible, the estimated future cash flows.

Liabilities for employee benefits in the form of bonus plans are recognised in liabilities when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

##### Key judgments and estimates

###### *Employee benefits*

Provisions for employee benefits include assumptions around expected future wage and salary levels and expected periods of service for the purposes of assessing the long service leave liability.

###### *Commission payments*

Provisions for commission payments include assumptions around forecast electricity usage for currently contracted customers acquired through a brokerage arrangement.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 21. Deferred Tax Assets and Liabilities

##### Recognised deferred tax assets and deferred tax liabilities

Movements in temporary differences - consolidated	Note	Opening balance	Recognised in income statement	Currency translation differences	Recognised in equity	Closing balance
		\$'000	\$'000	\$'000	\$'000	\$'000
2018						
Carried forward income tax losses		5,817	4,692	1,117	-	11,626
Net derivative financial liabilities		-	14,389	-	-	14,389
Employee provisions		4,352	284	58	-	4,694
Lease liabilities		6,662	(1,249)	17	-	5,430
Other items		7,785	622	37	-	8,444
<b>Deferred tax assets</b>		<b>24,616</b>	<b>18,738</b>	<b>1,229</b>	<b>-</b>	<b>44,583</b>
Set-off deferred tax liabilities						(30,594)
Write-down of deferred tax assets	(i)					(10,279)
<b>Net deferred tax assets</b>						<b>3,710</b>
Net derivative financial assets		(109,576)	13,587	87	95,902	-
Property, plant and equipment and intangibles		(68,976)	(8,553)	34	-	(77,495)
Lease assets		(4,375)	1,023	(13)	-	(3,365)
Goodwill		(1,650)	320	(121)	-	(1,451)
Associates		(72)	(107)	-	-	(179)
Other items		(4,497)	(727)	(3)	28	(5,199)
<b>Deferred tax liabilities</b>		<b>(189,146)</b>	<b>5,543</b>	<b>(16)</b>	<b>95,930</b>	<b>(87,689)</b>
Set-off deferred tax assets						30,594
<b>Net deferred tax liabilities</b>						<b>(57,095)</b>
<b>Net deferred tax assets for discontinued operations</b>	31/(ii)					<b>3,710</b>
<b>Net deferred tax liabilities for continuing operations</b>						<b>(57,095)</b>

(i) Estimated non-recoverability of US deferred tax assets.

(ii) The deferred tax asset remaining for the US discontinued operations relates to the amount expected to be recoverable on sale.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 21. Deferred Tax Assets and Liabilities (continued)

##### Recognised deferred tax assets and deferred tax liabilities

##### Movements in temporary differences - consolidated

	Opening balance	Recognised in income statement	Currency translation differences	Recognised in equity	Closing balance
2017	\$'000	\$'000	\$'000	\$'000	\$'000
Carried forward income tax losses	11,821	(5,870)	(134)	-	5,817
Employee provisions	1,361	2,992	(1)	-	4,352
Lease liabilities	2,022	1	3	4,636	6,662
Other items	4,752	3,046	(13)	-	7,785
<b>Deferred tax assets</b>	<b>19,956</b>	<b>169</b>	<b>(145)</b>	<b>4,636</b>	<b>24,616</b>
Set-off deferred tax liabilities					(10,766)
<b>Net deferred tax assets</b>					<b>13,850</b>
Net derivative financial assets	(49,176)	(10,424)	(16)	(49,960)	(109,576)
Property, plant and equipment and intangibles	(61,001)	(7,951)	(24)	-	(68,976)
Lease assets	-	(50)	(2)	(4,323)	(4,375)
Goodwill	(882)	(799)	31	-	(1,650)
Associates	-	(72)	-	-	(72)
Other items	(2,778)	(1,719)	-	-	(4,497)
<b>Deferred tax liabilities</b>	<b>(113,837)</b>	<b>(21,015)</b>	<b>(11)</b>	<b>(54,283)</b>	<b>(189,146)</b>
Set-off deferred tax assets					10,766
<b>Net deferred tax liabilities</b>					<b>(178,380)</b>

##### Recognition and measurement

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 2: Operating Assets and Liabilities

#### 21. Deferred Tax Assets and Liabilities (continued)

Deferred tax assets and liabilities have not been recognised for the following items:

		CONSOLIDATED	
		2018	2017
		\$'000	\$'000
<b>Tax losses not recognised</b>			
Unused capital tax losses for which no deferred tax asset has been recognised	(i)	15,127	15,127
Unused tax losses for which no deferred tax asset has been recognised – continuing operations	(ii)	698	-
Unused tax losses for which no deferred tax asset has been recognised – discontinued operation	(iii)	37,697	-
Potential Australian tax benefit at 30%		4,748	4,538
Potential US tax benefit at 21%		7,916	-

- (i) The unused capital losses were incurred from the disposal of capital investments that are not likely to be recouped in the foreseeable future.
- (ii) The unused tax losses were incurred by a joint venture the Group invests in. The losses are not likely to generate taxable income in the foreseeable future.
- (iii) The unused tax losses were incurred by the US business Source Power & Gas that is not likely to generate taxable income in the foreseeable future.

#### Unrecognised temporary differences

Temporary difference relating to investments in subsidiaries for which deferred tax balances have not been recognised:

Foreign currency translation	(2,671)	(1,361)
Net US deferred tax balances	11,251	-
Unrecognised deferred tax liabilities relating to the above temporary differences	(561)	(476)
Unrecognised deferred tax assets relating to the above temporary differences	2,363	-

Temporary differences of a net \$1.8m asset (2017: \$0.5m liability) has arisen as a result of unrealised mark to market valuations of derivatives, employee provisions, timing differences between tax and accounting depreciation, the translation of the financial statements of the Group's subsidiary in the US and other various items. However, a deferred tax asset has not been recognised as taxable profit against which the asset can be utilised is not expected to be available.

#### Tax consolidation

The Company and its wholly-owned Australian controlled entities, have implemented the tax consolidation legislation. The entities in the tax consolidated group have entered into tax sharing agreements which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity being ERM Power Limited.

The entities in the tax consolidated group have also entered into tax funding agreements under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

#### Key judgments and estimates

##### Deferred tax assets

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 22. Financial Risk Management

##### Financial risk management objectives

The Group's activities are exposed to a variety of financial risks, including:

- (a) Market risk (commodity price and interest rate),
- (b) Credit risk (refer Note 10), and
- (c) Liquidity risk.

The Group's overall risk management strategy focuses on the unpredictability of markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses a variety of derivative financial instruments such as electricity derivatives and interest rate swaps to hedge against certain risk exposures. Further details on these instruments are set out in notes 13 and 14.

The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

##### Market risk

###### *Electricity pool price risk*

The Group is exposed to fluctuations in wholesale market electricity prices as a result of electricity generation and sales.

Group policies prescribe active management of exposures arising from forecast electricity sales within prescribed limits. In doing so, various hedging contracts have been entered into with individual market participants. Any unhedged position has the potential for variation in net profit from fluctuations in electricity pool prices.

Subsidiaries in the Group's electricity sales segment routinely enter into forward sales contracts for the provision of electricity. The Group is exposed to a market risk of price fluctuations between the fixed price of these contracts and the relevant spot price of the electricity pool at the time of usage. The majority of this exposure to fluctuations in wholesale market electricity prices is managed through the use of various types of hedging contracts. The hedge portfolio consists predominantly of swaps, caps, futures and options. Electricity derivatives are either entered into in separate agreements or arise as embedded derivatives. Whilst the Group recognises the fair value of electricity derivative contracts for accounting purposes, the Group is not permitted to similarly recognise the fair value of the sales contracts that form the other side of the economic hedging relationship.

The following tables summarise the impact of a 10% change in the relevant forward prices for wholesale market electricity prices for the Group at the balance date, while all other variables were held constant.

###### *Electricity sales sensitivity*

The impact disclosed below summarises the sensitivity on the unrealised mark to market of electricity derivatives contracts only and does not include any corresponding movement in the value of customer contracts, which would vary in the opposite direction to the underlying hedge. As electricity forward prices increase above the contracted price of a derivative contract (buy side contract) the derivative contract becomes more valuable as it allows the Group to effectively purchase electricity at a cost lower than the prevailing forward market price. Equally, the value of the corresponding customer contract (sell side contract) decreases as the Group has contracted to sell electricity to a customer at a price lower than the prevailing forward market price. Only the mark to market on the buy side contract has been recognised for accounting purposes regardless of whether there is an effective hedge in place.

	Increase by 10%	Decrease by 10%
	\$'000	\$'000
<b>2018</b>		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	185,428	(157,180)
Other Components of Equity increase / (decrease)	83,404	(215,847)
<b>2017</b>		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	96,862	(5,610)
Other Components of Equity increase / (decrease)	198,957	(167,269)

Sensitivity of 10% has been selected as this is considered reasonably possible based on industry standard benchmarks and historical volatilities.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 22. Financial Risk Management (continued)

##### Market risk (continued)

##### *Electricity generation sensitivity*

The impact disclosed below summarises the sensitivity on the profit of generating assets held by the Group resulting from a change in spot prices.

	<b>Increase by 10% \$'000</b>	<b>Decrease by 10% \$'000</b>
<b>2018</b>		
Net profit / (loss)	5,695	(5,695)
Other Components of Equity increase / (decrease)	-	-
<b>2017</b>		
Net profit / (loss)	3,687	(3,687)
Other Components of Equity increase / (decrease)	-	-

Sensitivity of 10% has been selected as this is considered reasonably possible based on industry standard benchmarks and historical volatilities.

##### *Interest rate risk*

The Group is exposed to interest rate risk on the funds it borrows at floating interest rates and on cash deposits. The risk is managed by entering into interest rate swap contracts for project term debt. The sensitivity analysis to net profit (being profit before tax) and equity has been determined based on the exposure to interest rates at the balance date and assumes that there are concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 50 basis points has been selected as this is considered reasonable given the current level of short term and long term interest rates.

At balance date, if interest rates had been 50 basis points higher / lower and all other variables were held constant, the impact on the Group would be:

	<b>Increase by 50bps \$'000</b>	<b>Decrease by 50bps \$'000</b>
<b>2018</b>		
Net profit / (loss)	434	(434)
Other equity increase / (decrease)	2,141	(2,141)
<b>2017</b>		
Net profit / (loss)	663	(663)
Other equity increase / (decrease)	2,504	(2,504)

The impact on net profit is largely due to the Group's exposure to interest rates on its non-hedged variable rate borrowings and cash assets.

##### *Foreign exchange risk*

The Group operates a US electricity retail business and is exposed to foreign currency translation risk in respect of the investment. There is no debt in respect of this investment and there are no cross currency transactions that expose the Group to further foreign exchange risk.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 22. Financial Risk Management (continued)

##### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. Information regarding undrawn finance facilities available as at 30 June 2018 is contained in Note 25.

##### Maturities of financial liabilities

The table below analyses the Group's financial liabilities, including net and gross settled derivative financial instruments, into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at balance date. For electricity derivatives the cash flows have been estimated using forward electricity prices at balance date.

Financial liabilities	≤1 year \$'000	1 to 5 years \$'000	>5 years \$'000	Discount \$'000	Total \$'000
<b>Consolidated</b>					
<b>2018</b>					
Trade payables and accrued expenses	268,525	-	-	-	268,525
Other payables	155,114	-	-	-	155,114
Leased liabilities	4,276	14,509	-	(1,516)	17,269
Interest bearing liabilities	150,831	-	-	-	150,831
Interest bearing liabilities – limited recourse <sup>(i)</sup>	8,904	96,722	87,814	(7,969)	185,471
Derivatives	34,511	74,762	4,149	-	113,422
	<b>622,161</b>	<b>185,993</b>	<b>91,963</b>	<b>(9,485)</b>	<b>890,632</b>
<b>2017</b>					
Trade payables and accrued expenses	344,335	-	-	-	344,335
Other payables	119,979	-	-	-	119,979
Leased liabilities	4,383	17,961	2,010	(2,374)	21,980
Interest bearing liabilities – limited recourse <sup>(i)</sup>	8,264	30,587	159,603	(9,537)	188,917
Derivatives	40,758	53,592	6,992	-	101,342
	<b>517,719</b>	<b>102,140</b>	<b>168,605</b>	<b>(11,911)</b>	<b>776,553</b>

(i) Recourse limited to assets of the Neerabup Partnership. Refer note 29 for further details.

##### Capital risk management

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. This approach is consistent with prior years. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in note 25, total limited recourse facilities as listed in note 25 and equity, comprising issued capital, reserves and retained earnings as listed in notes 26 and 27.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is required to provide prudential credit support to various parties which it does through the provision of bank guarantees or cash collateral. It also has a working capital facility in place which is settled each month. A large percentage of the Group debt is in the form of limited recourse project finance provided directly to power stations in which the Group has an interest. During the financial year ended 30 June 2018 the entity complied with all applicable debt covenants.

The quantitative analysis of the Group's gearing structure is illustrated below. To consider the risk of the Company's capital structure it is appropriate to segregate the power stations from the rest of the Group. The table below illustrates the gearing and interest cover for the Group. When the Neerabup assets and associated limited recourse debt are excluded the Group has no net debt.

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Gearing percentage <sup>(i)</sup>	28.2%	0%
Gearing percentage <sup>(i)</sup> excluding Neerabup	0%	0%
EBITDAF Interest cover ratio for continuing operations	3.57	3.19

(i) Gearing percentage is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents.

Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt less reserves attributable to fair value adjustments.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 23. Fair Value Measurement

##### Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following:

	CONSOLIDATED	
	2018	2018
	\$'000	\$'000
	Carrying value	Fair value
<b>Financial assets</b>		
Electricity and gas derivative financial instruments	99,095	123,126
	<b>99,095</b>	<b>123,126</b>

The carrying value of derivative financial assets recognised excludes a day one gain on certain electricity derivatives. In accordance with the Groups accounting policy a day one gain has not been recognised with the day one value of certain instruments entered into initially valued at the transaction price, which is the best indicator of fair value. Any gain subsequently realised is progressively recognised as the instruments are settled. The measurement of the instruments at 30 June 2018 excludes the remaining balance of the deferred day one gain of \$24.1m. At inception the day one gain was \$31.9m. The movement in the day one gain balance relates to settlement of derivatives through profit and loss during the year.

##### Key judgments and estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes. The financial assets and liabilities held by the Group and the fair value approach for each is outlined below:

Financial asset and liability	Fair value approach
<i>Cash and cash equivalents</i>	The carrying amount is fair value due to the asset's liquid nature.
<i>Derivative financial instruments</i>	The fair value of derivative instruments included in hedging assets and liabilities is calculated using quoted prices. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods, such as discounted cash flows, and makes assumptions that are based on market conditions existing at each balance date. These amounts reflect the estimated amount which the Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates at balance date. Where the derivative instrument life extends beyond the period of available market data valuation techniques and assumptions are used in the fair value estimate.
<i>Other financial assets</i>	Due to their short-term nature, the carrying amounts of loans, receivables, and cash and cash equivalents approximate their fair value.
<i>Other financial liabilities at amortised cost</i>	The Group holds various trade payables and borrowings at period end. Due to the short-term nature of the trade payables the carrying value of these are assumed to approximate their fair value. The fair value of borrowings is not materially different then the carrying amounts as the interest rates are close to current market rates or are short-term in nature.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 23. Fair Value Measurement (continued)

##### Fair value of financial assets and liabilities (continued)

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2018 and 30 June 2017.

As at 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Electricity and commodity derivatives	5,233	93,862	-	99,095
Financial assets at fair value through other comprehensive income	9	-	-	9
<b>Total assets</b>	<b>5,242</b>	<b>93,862</b>	<b>-</b>	<b>99,104</b>
<b>Liabilities</b>				
Electricity and commodity derivatives	1,790	82,151	-	83,941
Interest rates swaps	-	29,481	-	29,481
<b>Total liabilities</b>	<b>1,790</b>	<b>111,632</b>	<b>-</b>	<b>113,422</b>

As at 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Electricity and commodity derivatives	8,871	397,705	-	406,576
Embedded derivative contract	-	30	-	30
Financial assets at fair value through other comprehensive income	15	-	-	15
<b>Total assets</b>	<b>8,886</b>	<b>397,735</b>	<b>-</b>	<b>406,621</b>
<b>Liabilities</b>				
Electricity and commodity derivatives	7,983	59,547	-	67,530
Interest rates swaps	-	33,812	-	33,812
<b>Total liabilities</b>	<b>7,983</b>	<b>93,359</b>	<b>-</b>	<b>101,342</b>

##### Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

##### Level 2

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

##### Level 3

A valuation technique for these instruments is based on significant unobservable inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the years ending 30 June 2018 and 30 June 2017 there were no transfers between the fair value hierarchy levels.

##### Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2018 and 30 June 2017. The column 'net exposure' shows the impact on the Group's balance sheet if all set-off rights were exercised.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 23. Fair Value Measurement (continued)

##### Offsetting of financial assets and financial liabilities (continued)

The below table provides a reconciliation of the Group's gross derivative financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 30 June 2018 and as at 30 June 2017.

As at 30 June 2018  
\$'000

	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits paid / (received)	Net amount presented	Related amounts Financial instruments <sup>(i)</sup>	not offset Cash collateral	Net exposure
<b>Financial assets</b>							
Electricity and commodity derivatives contracts	245,467	(172,457)	26,085	99,095	(12,225)	-	86,870
<b>Total</b>	<b>245,467</b>	<b>(172,457)</b>	<b>26,085</b>	<b>99,095</b>	<b>(12,225)</b>	<b>-</b>	<b>86,870</b>
<b>Financial liabilities</b>							
Electricity and commodity derivatives contracts	256,398	(172,457)	-	83,941	(12,225)	9,997	81,713
Interest rate swaps	29,481	-	-	29,481	-	-	29,481
<b>Total</b>	<b>285,879</b>	<b>(172,457)</b>	<b>-</b>	<b>113,422</b>	<b>(12,225)</b>	<b>9,997</b>	<b>111,194</b>

As at 30 June 2017  
\$'000

	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits paid / (received)	Net amount presented	Related amounts Financial instruments <sup>(i)</sup>	not offset Cash collateral	Net exposure
<b>Financial assets</b>							
Electricity and commodity derivatives contracts	547,777	(78,192)	(63,009)	406,576	(3,925)	(46,462)	356,189
Foreign exchange derivatives contract	30	-	-	30	-	-	30
<b>Total</b>	<b>547,807</b>	<b>(78,192)</b>	<b>(63,009)</b>	<b>406,606</b>	<b>(3,925)</b>	<b>(46,462)</b>	<b>356,219</b>
<b>Financial liabilities</b>							
Electricity and commodity derivatives contracts	145,948	(78,192)	(226)	67,530	(3,925)	1,340	64,945
Interest rate swaps	33,812	-	-	33,812	-	-	33,812
<b>Total</b>	<b>179,760</b>	<b>(78,192)</b>	<b>(226)</b>	<b>101,342</b>	<b>(3,925)</b>	<b>1,340</b>	<b>98,757</b>

(i) Financial instruments that do not meet the criteria for offsetting but may be offset in certain circumstances.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 24. Cash and Cash Equivalents

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>Current</b>		
Restricted cash	160,038	118,465
Non-restricted cash at bank and cash on hand	67,598	126,151
<b>Total cash and cash equivalents</b>	<b>227,636</b>	<b>244,616</b>

The cash and cash equivalents are bearing interest at rates between nil and 2.75%.

#### Restricted cash

Term deposits	34,120	33,547
Other restricted cash deposits	125,918	84,918
	<b>160,038</b>	<b>118,465</b>

#### Restricted cash

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 34. Cash collateral held in margin accounts to facilitate wholesale price hedging on the ASX Energy Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability. As at 30 June 2018 \$22.3m cash collateral held in initial margin accounts has been offset against the corresponding asset or liability (2017: \$96.4m).

The restricted cash deposits, held on term deposit, are bearing interest at rates between 1.75% and 2.75%.

#### Recognition and measurement

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of any bank overdrafts. These assets are stated at nominal values.

Cash that is reserved and its use specifically restricted for maintenance and / or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 34. Cash collateral held in margin accounts to facilitate wholesale price hedging on the ASX Energy Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 25. Borrowings

	Note	CONSOLIDATED	
		2018	2017
		\$'000	\$'000
<b>Current</b>			
<i>Secured</i>			
Bank loan - Receivables financing facility	(i)	150,831	-
		<u>150,831</u>	<u>-</u>
<i>Secured - limited recourse</i>			
Bank loan - Neerabup working capital facility	(ii)	3,000	3,000
Bank loan - Neerabup term facility	(iii)	5,904	5,264
		<u>8,904</u>	<u>8,264</u>
<b>Total current borrowings</b>		<u>159,735</u>	<u>8,264</u>
<b>Non-current</b>			
<i>Secured - limited recourse</i>			
Bank loan - Neerabup term facility	(iii)	124,537	130,190
Convertible notes	(iv)	52,030	50,463
		<u>176,567</u>	<u>180,653</u>
<b>Total non-current borrowings</b>		<u>176,567</u>	<u>180,653</u>
<b>Total borrowings</b>		<u>336,302</u>	<u>188,917</u>

Information on credit risk, fair value and interest rate risk exposure of the Group is provided at note 22.

- (i) Amounts drawn down on receivables financing facility secured against billed and unbilled electricity sales customer revenue receivables. The facility is available until July 2020.
- (ii) Amounts drawn down on a limited recourse bank working capital facility by Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iii) Amounts drawn down on a limited recourse term debt facility in respect of the Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iv) Convertible notes are redeemable by the issuer from 30 September 2010 until maturity in February 2023. Notes have a coupon rate that is variable based on BBSY plus 4%. The notes are accounted for using the effective interest method at 7.62% (2017: 7.78%). The notes can only be converted to shares in the issuing subsidiary upon failure to redeem them at maturity or other named event of default. The notes have recourse to the Group's 50% interest in the Neerabup partnership only.

#### *Financing facilities available*

The Group's financing facilities predominantly relate to limited recourse power station development activities. Funding is drawn down progressively according to project time lines. At balance date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Total facilities - bank loans	413,123	391,463
Facilities used at balance date - bank loans	(324,426)	(179,020)
Facilities unused at balance date - bank loans	<u>88,697</u>	<u>212,443</u>

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 25. Borrowings (continued)

##### Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### 26. Contributed Equity

	Note	CONSOLIDATED		CONSOLIDATED	
		2018	2017	2018	2017
		Number of shares	Number of shares	\$'000	\$'000
Issued ordinary shares – fully paid		255,421,056	252,708,202	350,745	346,621
Treasury shares		(7,531,156)	(7,648,455)	(10,314)	(11,609)
		<b>247,889,900</b>	<b>245,059,747</b>	<b>340,431</b>	<b>335,012</b>
<b>Movement in ordinary share capital</b>					
At the beginning of the period		252,708,202	245,836,004	346,621	339,669
Issue of new shares – employee incentive scheme	33	3,948,853	5,588,171	6,841	5,606
Issue of shares – dividend reinvestment plan		503,561	1,284,027	673	1,301
Shares bought back on-market and cancelled, including transaction costs (net of tax)		(1,739,560)	-	(2,880)	-
Transfer from share buy-back reserve		-	-	408	-
Transfer from share based payment reserve		-	-	3,052	304
Transfer to treasury shares		-	-	(3,970)	(259)
At the end of the period		<b>255,421,056</b>	<b>252,708,202</b>	<b>350,745</b>	<b>346,621</b>

##### Terms and conditions of contributed equity

##### Ordinary shares

During the year ended 30 June 2018, there were no capital raisings undertaken.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

##### Treasury shares

Treasury shares are shares that are held in trust for the purpose of issuing shares under employee share incentive schemes. For details of shares and options issued under employee share schemes see note 33.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 26. Contributed Equity (continued)

##### Share buy-back

During the year ended 30 June 2018, the Company purchased and cancelled 1,739,560 ordinary shares on-market. The shares were acquired at an average price of \$1.61. The total cost of \$2.9m, including \$0.1m of after tax transaction costs, was deducted from contributed equity. As the shares were bought back at an average price in excess of the share capital issued, \$0.4m was transferred to the share buy-back reserve. The total reduction in paid up capital was \$2.5m.

##### Recognition and measurement

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### 27. Reserves

<b>CONSOLIDATED 2018 \$'000</b>	<b>Cash flow hedge reserve</b>	<b>Fair value reserve</b>	<b>Share based payment reserve</b>	<b>Share buy-back reserve</b>	<b>Transactions with non- controlling interests</b>	<b>Foreign currency translation reserve</b>	<b>Total</b>
Balance at the beginning of the year	228,912	(1,042)	6,050	-	(14,404)	1,361	220,877
Revaluation - net	(319,674)	(6)	-	-	-	-	(319,680)
Revaluation - deferred tax	95,902	-	-	-	-	-	95,902
Share based payments vested	-	-	(3,052)	-	-	-	(3,052)
Share based payments expense	-	-	2,774	-	-	-	2,774
Transfer to contributed equity	-	-	-	(408)	-	-	(408)
Currency translation differences	-	-	-	-	-	1,310	1,310
Balance at the end of the year	5,140	(1,048)	5,772	(408)	(14,404)	2,671	(2,277)

<b>CONSOLIDATED 2017 \$'000</b>	<b>Cash flow hedge reserve</b>	<b>Fair value reserve</b>	<b>Share based payment reserve</b>	<b>Share buy-back reserve</b>	<b>Transactions with non- controlling interests</b>	<b>Foreign currency translation reserve</b>	<b>Total</b>
Balance at the beginning of the year	112,338	(900)	3,676	-	(14,404)	2,703	103,413
Revaluation - net	166,534	(142)	-	-	-	-	166,392
Revaluation - deferred tax	(49,960)	-	-	-	-	-	(49,960)
Share based payments vested	-	-	(1,153)	-	-	-	(1,153)
Share based payments expense	-	-	3,527	-	-	-	3,527
Currency translation differences	-	-	-	-	-	(1,137)	(1,137)
Reclassification to profit or loss on disposal of discontinued operations	-	-	-	-	-	(205)	(205)
Balance at the end of the year	228,912	(1,042)	6,050	-	(14,404)	1,361	220,877

##### Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

##### Fair value reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as fair value through other comprehensive income, are recognised in other comprehensive income and accumulated in a separate reserve within equity.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 3: Capital and Financial Risk Management

#### 27. Reserves (continued)

##### Share based payment reserve

The share based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised;
- the grant date fair value of shares issued to employees; and
- the issue of shares held by the EST and LTIOT employee share trusts to employees.

##### Share buy-back reserve

The share buy-back reserve is used to record the difference in the average share price for the shares bought back compared to the share capital issued prior to the buy-back.

##### Transactions with non-controlling interests

This reserve is used to record the differences described in note 38 which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

##### Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 38(a) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 28. Parent Entity Financial Information

The individual financial statements for the parent entity show the following aggregate amounts

	2018	2017
	\$'000	\$'000
<b>Statement of financial position</b>		
Current assets	245,901	319,351
Total assets	398,750	474,843
Current liabilities	18,690	30,093
Total liabilities	34,102	47,228
<b>Net assets</b>	<b>364,648</b>	<b>427,615</b>
<i>Shareholders' equity</i>		
Contributed equity	350,745	346,621
Treasury shares	(10,314)	(11,609)
Fair value reserve	(1,048)	(1,042)
Share based payment reserve	5,772	6,050
Share buy-back reserve	(408)	-
Retained earnings	19,901	87,595
<b>Total equity</b>	<b>364,648</b>	<b>427,615</b>
<b>(Loss) / profit for the year</b>	<b>(49,753)</b>	<b>80,674</b>
Other comprehensive loss	(6)	(142)
<b>Total comprehensive (loss) / income</b>	<b>(49,759)</b>	<b>80,532</b>

#### Guarantees entered into by the parent entity

The parent entity has issued non-cash backed guarantees to certain third parties to support the operations of the Australia and US electricity sales businesses.

#### Contingent liabilities of the parent entity

At 30 June 2018, the parent entity has drawn on \$180m of non-cash backed financial guarantees under the Liberty International Underwriters Singapore Surety guarantee facility. The guarantee is drawn to support Australian energy market operational obligations as detailed in note 34(b).

#### Contractual commitments for acquisition of property, plant and equipment

There are no contractual commitments for the acquisition of property, plant and equipment at 30 June 2018.

#### Parent entity financial information

The financial information for the parent entity, ERM Power Limited has been prepared on the same basis as the consolidated financial statements, except as set out below:

##### (a) Investments in subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Company. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

##### (b) Financial Guarantees

Where the parent entity provides financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investments.

##### (c) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 28. Parent Entity Financial Information (continued)

##### (d) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity ERM Power Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

#### 29. Interests in Other Entities

##### (a) Subsidiary companies

The Consolidated Entity consists of a number of wholly or majority owned subsidiaries as set out below. The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2018 as set out below and the results for the year then ended.

Name	Place of incorporation	Percentage of equity interest held by the Company		Percentage of equity interest held by the non-controlling interests	
		2018	2017	2018	2017
		%	%	%	%
Material operating subsidiaries					
ERM Financial Services Pty Ltd	QLD	100	100	-	-
ERM Gas Pty Ltd	QLD	100	100	-	-
ERM Holdings Pty Ltd	QLD	100	100	-	-
ERM Land Holdings Pty Ltd	QLD	100	100	-	-
ERM Neerabup Power Pty Ltd	VIC	100	100	-	-
ERM Neerabup Pty Ltd	VIC	100	100	-	-
ERM Power Developments Pty Ltd	VIC	100	100	-	-
ERM Power Generation Pty Ltd	VIC	100	100	-	-
ERM Power International Pty Ltd	QLD	100	100	-	-
ERM Power Investments Pty Ltd	QLD	100	100	-	-
ERM Power Retail Pty Ltd	VIC	100	100	-	-
ERM Power Trading LLC <sup>(i)</sup>	USA	100	100	-	-
Greensense Pty Ltd	WA	100	100	-	-
Lumaled Pty Ltd	NSW	100	100	-	-
Oakey Power Holdings Pty Ltd	ACT	100	100	-	-
Powermetric Metering Pty Ltd	NSW	100	100	-	-
ERM Innovation Labs Pty Ltd <sup>(ii)</sup>	VIC	100	100	-	-
Source Operations Group LLC	USA	100	100	-	-
Source Power & Gas LLC	USA	100	100	-	-
SPG Energy Group LLC	USA	100	100	-	-

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 29. Interests in Other Entities (continued)

##### (a) Subsidiary companies (continued)

Name	Place of incorporation	Percentage of equity interest held by the Company		Percentage of equity interest held by the non-controlling interests	
		2018	2017	2018	2017
Other non-material subsidiaries		%	%	%	%
Braemar 3 Holdings Pty Ltd	QLD	100	100	-	-
ERM Braemar 3 Pty Ltd	QLD	100	100	-	-
ERM Braemar 3 Power Pty Ltd	QLD	100	100	-	-
ERM Business Energy LLC	USA	100	100	-	-
ERM Gas WA01 Pty Ltd	VIC	100	100	-	-
ERM Oakey Power Holdings Pty Ltd	NSW	100	100	-	-
E.R.M. Oakey Power Pty Ltd	QLD	100	100	-	-
ERM Power Services Pty Ltd	VIC	100	100	-	-
ERM Power Utility Systems Pty Ltd	QLD	100	100	-	-
ERM Wellington 1 Holdings Pty Ltd	QLD	100	100	-	-
Queensland Electricity Investors Pty Ltd	QLD	100	100	-	-
Richmond Valley Solar Thermal Pty Ltd	QLD	100	100	-	-

(i) Formed 21 September 2016.

(ii) Company name changed on 24 July 2018, formally SAGE Utility Systems Pty Ltd.

##### Recognition and measurement

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control of an entity exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group that were not previously under common control.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Intercompany balances, transactions and unrealised gains resulting from intra-group transactions with subsidiaries have been eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

##### Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

##### Employee share trusts

The Group has formed trusts to administer the Group's employee share schemes. The trusts are consolidated, as the substance of the relationship is that the trusts are controlled by the Group. Shares held by the trusts are disclosed as treasury shares and deducted from contributed equity.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 29. Interests in Other Entities (continued)

##### (b) Significant joint operations – power station projects

As at 30 June 2018 and 30 June 2017, the Group has the following interest in power station projects with other external parties. The Group has classified its investments in the NewGen Neerabup Partnership as a joint operation. The partners of the Partnership are jointly and severally liable for the liabilities of the partnership and under the partnership agreement are entitled to a proportionate share of Partnership's assets.

	Principle place of business	Interest Held	
		2018	2017
<b>Neerabup Power Station:</b>		%	%
NewGen Power Neerabup Pty Ltd	QLD	50	50
NewGen Neerabup Pty Ltd	QLD	50	50
NewGen Neerabup Partnership	WA	50	50

The consolidated entity's proportionate share of assets employed and liabilities incurred in power station projects classified as joint operations is summarised below.

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	12,582	11,985
Trade and other receivables at amortised cost	4,185	4,547
Inventories	52	64
Other assets	447	528
<b>TOTAL CURRENT ASSETS</b>	<b>17,266</b>	<b>17,124</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	165,745	170,241
Intangible assets	51	57
<b>TOTAL NON-CURRENT ASSETS</b>	<b>165,796</b>	<b>170,298</b>
<b>TOTAL ASSETS</b>	<b>183,062</b>	<b>187,422</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	1,006	1,117
Borrowings – limited recourse	8,904	8,264
Provisions	46	52
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,956</b>	<b>9,433</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings – limited recourse	124,536	130,190
Derivative financial instruments	29,481	33,812
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>154,017</b>	<b>164,002</b>
<b>TOTAL LIABILITIES</b>	<b>163,973</b>	<b>173,435</b>
<b>NET ASSETS</b>	<b>19,089</b>	<b>13,987</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 29. Interests in Other Entities (continued)

##### (b) Significant joint operations – power station projects (continued)

##### Capital expenditure commitments

	CONSOLIDATED	
	2018 \$'000	2017 \$'000
Estimated capital expenditure contracted for at balance date, not provided for but payable		
– not later than one year	9	14
– later than one year and not later than five years	-	-
– later than five years	-	-
	<b>9</b>	<b>14</b>

##### Recognition and measurement

##### *Joint arrangements*

Under AASB 11, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint operations but no material joint ventures.

##### *Joint operations*

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

##### (c) Joint ventures

In June 2016, the Group made a 33% investment in Energy Locals Pty Ltd for \$1.5m, a company which provides a platform for members of communities to supply and charge each other energy. In May 2017, the Group acquired preference shares in Energy Locals for \$1m. In May 2018 these shares were converted into ordinary shares and Energy Locals issued additional share capital to a third party investor, bringing the Group's cash investment in the joint venture to 32.63% for \$2.5m.

##### (d) Interests in associate

Name of entity	Place of business/ country of incorporation	Principle Activity	Measurement method	% of ownership interest	
				2018	2017
1st Energy Pty Ltd	Australia	Electricity sales to business and residential customers in New South Wales	Equity method	30	30

During the 2017 financial year, the Group made a 30% investment in 1st Energy Pty Ltd (1st Energy) for \$4.5m. The Group has representation on its board of directors and a consequent ability to participate in the financial and operating decisions. In the opinion of the directors, ERM Power has significant influence and 1st Energy is an associate of the Group.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 29. Interests in Other Entities (continued)

##### (d) Interests in associate (continued)

###### Recognition and measurement

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

###### Key judgments and estimates

ERM Power has determined that it has significant influence, but not control or joint control, to govern the financial and operating policies of 1st Energy and accordingly the investment is accounted for as an associate.

#### 30. Business Combination

During the year ended 30 June 2018 the Group did not acquire any businesses.

###### Recognition and measurement

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 31. Discontinued Operations

On 23 August 2018, the Group publicly announced the decision of its Board of Directors to sell the US business Source Power & Gas. A plan to sell was approved and actioned in June 2018. The sale is expected to be completed during the first half of FY2019. At 30 June 2018, the US business was classified as a disposal group held for sale and as a discontinued operation. The results of the US business are presented below and include the results of the US residential business for the comparative year, which was sold during FY2017:

##### (a) Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations for the year.

	Note	2018 \$'000	2017 \$'000
Revenue		529,719	419,186
Expenses		(529,546)	(423,920)
<b>EBITDAF</b>		<b>173</b>	<b>(4,734)</b>
Gain on sale of customer contracts	31(b)	-	10,851
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss		9,571	(16,391)
Depreciation and amortisation		(16,687)	(11,214)
Net finance costs		(14,729)	(6,604)
<b>Loss before tax</b>		<b>(21,672)</b>	<b>(28,092)</b>
Income tax (expense) / benefit		(12,296)	7,762
<b>Net loss from discontinued operations</b>		<b>(33,968)</b>	<b>(20,330)</b>
Exchange differences on translation of discontinued operations		1,310	(1,342)
<b>Other comprehensive income / (loss) from discontinued operations</b>		<b>1,310</b>	<b>(1,342)</b>
<b>Total comprehensive loss from discontinued operations</b>		<b>(32,658)</b>	<b>(21,672)</b>
Net cash inflow from operating activities		16,310	21,644
Net cash outflow from investing activities		(11,692)	(795)
Net cash outflow from financing activities		(14,958)	(6,557)
<b>Net (decrease) / increase in cash generated by the discontinued operations</b>		<b>(10,340)</b>	<b>14,292</b>
<b>Revenue</b>			
<b>Major product / service lines</b>			
Sale of electricity		529,719	419,186
		<b>529,719</b>	<b>419,186</b>
<b>Timing of revenue recognition</b>			
Recognised over time		529,719	419,186
		<b>529,719</b>	<b>419,186</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 4: Group Structure

#### 31. Discontinued Operations (continued)

##### (b) Details of the sale of the US residential customer contract assets

	CONSOLIDATED	
	2018	2017
	\$'000	\$'000
Consideration received or receivable:		
Cash	-	15,806
<b>Total disposal consideration</b>	-	15,806
Carrying amount of net assets sold	-	(4,955)
<b>Gain on sale before income tax and reclassification of foreign currency translation reserve</b>	-	10,851
Reclassification of foreign currency translation reserve	-	(205)
Income tax expense on gain	-	(5,532)
<b>Gain on sale after income tax</b>	-	5,114

##### (c) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the US discontinued operation as at 30 June 2018:

	Note	CONSOLIDATED 2018 \$'000
<b>Assets classified as held for sale</b>		
Cash and cash equivalents		12,822
Trade and other receivables at amortised cost		74,000
Inventories		14
Other assets		837
Derivative financial instruments		5,890
Leased assets	18	990
Property, plant and equipment	15	769
Intangible assets	16	64,795
Deferred tax assets	21	3,710
<b>Total assets of disposal group held for sale</b>		<b>163,827</b>
<b>Liabilities directly associated with assets classified as held for sale</b>		
Trade and other payables		94,915
Lease liabilities		1,189
Provisions	20	39,181
Derivative financial instruments		15,352
<b>Total liabilities of disposal group held for sale</b>		<b>150,637</b>

As at 30 June 2018, the Group has classified \$3.4m intangible assets as held for sale and \$1.5m trade and other payables as liabilities associated with the Business Energy Australia operations single site SME customer contracts acquisition costs. A decision to sell these sites was finalised in June 2018.



# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 5: Employee Remuneration

#### 32. Key Management Personnel

	CONSOLIDATED	
	2018	2017
Key management personnel compensation	\$	\$
Short-term employee benefits	6,961,679	6,760,826
Long-term employee benefits	39,402	65,402
Post-employment benefits	221,887	223,212
Share-based payments	1,366,422	1,327,333
	<u>8,589,390</u>	<u>8,376,773</u>

Detailed remuneration disclosures are provided in the Remuneration Report.

#### 33. Share Based Payments

The Company provides benefits to employees (including the CEO and Senior Executives) of the Group in the form of share-based payments, whereby selected employees who are invited by the Board render services in exchange for shares or options or rights over shares.

The objective of the Long Term Incentive Scheme (LTI) is to provide incentives to focus on long term shareholder returns. These incentive awards have previously been granted by way of offers to participate in both the Employee Share Trust (EST) and the Long Term Incentive Option Trust (LTIOT).

The expense arising from these transactions is shown in note 5.

The Group operates a number of share-based payment plans. A description of each type of share-based payment arrangement that existed at any time during the period is described below. The fair value of options and rights granted under equity-settled share based arrangements are measured at grant date and spread over the vesting period through a charge to employee benefit expense in the income statement and a corresponding increase in the share-based payments reserve in equity. The fair value of share based payments takes into account market performance conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of shares that are expected to be vested. Upon vesting, the relevant amount in the share-based payments reserve is transferred to contributed equity.

##### STIST and EST (formerly the LTIST)

The Company previously received approval of these employee incentive plans by shareholders at the 2016 AGM. Shares are acquired by a trustee who holds those shares on behalf of participants. The shares are acquired by the trustee either subscribing for new shares or purchasing shares on market.

Participants hold their interest through units, where one unit represents one share. Participants apply for a loan to acquire units in the trust at the prevailing market value of the shares. A participant may instruct the trustee how to exercise their vote in the case of a poll at a meeting of the Company. Vesting conditions, if any, may be a combination of service and performance hurdles, as determined by the directors. If the participant's employment ceases prior to the units vesting, the Board will determine if the participant's units are forfeit or, for redundancy, death or permanent disability, or in circumstances that the Board determines appropriate, continue to be held to the end of the performance period at which time the proportion to vest will be re-assessed.

Early vesting may occur on a change of control of the Company, being a material change in the composition of the Board initiated as a result of a change of ownership of shares and the purchaser of the shares requiring (or agreeing with other shareholders to require) that change in Board composition, or in other circumstances that the Board determines appropriate.

Any units issued without market based vesting conditions are valued at the external market price at the time of issue and are not valued using a Monte Carlo simulation or other methodology.

At 30 June 2018, 7,531,156 units remained outstanding not yet vested (2017: 7,648,455).

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 5: Employee Remuneration

#### 33. Share Based Payments (continued)

##### STIST and EST (continued)

##### Key judgments and estimates

##### Valuation of shares granted under LTI awards

The fair value of shares granted under the EST with market based vesting conditions is determined using a Monte Carlo simulation (using a Black-Scholes framework). The model inputs for restricted shares granted are shown in the table below.

	FY2018 grants	FY2017 grants
Assessed fair value per share at grant date <sup>(i)</sup>	\$0.63 - \$0.64	\$0.57 - \$0.68
Number of units allocated under the plan during the financial year <sup>(ii)</sup>	2,433,169	2,829,195
Share price at grant date	\$1.20 - \$1.29	\$0.84 - \$1.13
Exercise price	Nil	Nil
Expected price volatility of the Company's shares based on historic volatility	39%	38% - 39%
Risk free interest rate	1.94% - 2.10%	1.52% - 1.74%
Expected vesting date	3 years after issue	2 - 3 years after issue
Dividend yield	5.45% - 5.83%	10.62% - 14.29%
Proportion subject to vesting on satisfaction of total security holder return (TSR) performance <sup>(ii)</sup>	100%	100%

(i) Valued using a Monte Carlo simulation.

(ii) Certain grants may have other service based conditions in lieu of a TSR component. For those grants with a TSR condition, vesting is based 100% on meeting both TSR and service conditions. The performance hurdle will only be satisfied where the TSR value is positive. If the TSR value is negative, the performance hurdle will not be satisfied, and the underlying shares in the LTIST will not vest.

##### LTIST

Options were granted during the 2011 financial year. No options have been granted subsequent to the 2011 financial year.

Participants were issued units at the prevailing market value of the options. The assessed fair value at grant date of options granted during the year ended 30 June 2011 was 10.43 cents. The fair value at grant date was determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. Early vesting and the consequences of cessation of employment prior to vesting are identical to the LTIST as described above. Details of movements in the option plan is set out below.

Financial year	Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Options expired during the year	Balance at end of the year	Vested and exercisable at end of the year
				Number	Number	Number	Number	Number	Number
2011	1/11/2010	1/11/2017	\$2.75	961,874	-	128,750	833,124	-	-
2011	8/11/2010	8/11/2017	\$2.75	242,706	-	-	242,706	-	-
<b>Total</b>				<b>1,204,580</b>	<b>-</b>	<b>128,750</b>	<b>1,075,830</b>	<b>-</b>	<b>-</b>

##### Other awards

The Company may offer awards outside of the standard incentive plans. Performance Rights have been granted as part of an employee retention strategy. The Performance Rights are subject to a vesting period and will be satisfied, at the Board's discretion, in cash or shares, subject to continuous full-time employment with the Company. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP at the vesting date. Details of the Performance Rights issues are set out below.

Financial year	Grant Date	Vesting date	Number	Notional issue price
2016	21/12/15	06/01/19	468,232	\$1.538
2015	23/09/14	23/09/19	280,114	\$1.785
2014	16/08/13	16/08/18	92,285	\$2.709

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 6: Other Disclosure Items

#### 34. Commitments and Contingencies

##### CONSOLIDATED

2018      2017  
\$'000      \$'000

##### (a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, not provided for but payable (including share of associates and joint ventures):

- not later than one year	199	7,517
- later than one year and not later than five years	-	138
- later than five years	-	-
	<b>199</b>	<b>7,655</b>

##### (b) Contingent liabilities

Details of contingent liabilities are set out below. The directors are of the opinion that provisions are not required in respect of these items as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

##### CONSOLIDATED

Note      2018      2017  
\$'000      \$'000

Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	221,845	208,162
Bank guarantees - Lease arrangements	(ii)	2,365	2,915
Futures margin deposits	(iii)	141,749	-
Security deposits	(iv)	10,155	1,345
Bank guarantees - Western Power	(v)	300	300
		<b>376,414</b>	<b>212,722</b>

- (i) The Group has provided bank guarantees in favour of the Australian Energy Market Operator to support its obligations to settle electricity purchases from the National Electricity Market. Bank guarantees have also been provided to various counterparties in relation to electricity derivatives. A portion of the guarantees are supported by term deposits. \$180m of the bank guarantees are supported by non-cash backed guarantees in 2018 (2017: \$150m).
- (ii) The Group has provided bank guarantees in relation to lease arrangements for premises in Brisbane, Sydney, Melbourne and Perth. These guarantees are supported by term deposits.
- (iii) Futures margin deposits represent cash lodged with the Group's futures clearing brokers. The deposits are in relation to various futures contracts on the Australian Securities Exchange and Intercontinental exchange and may be retained by the clearing brokers in the event that the Group does not meet its contractual obligations.
- (iv) Security deposits represent interest bearing cash lodged as eligible credit support with various counterparties to the Group's electricity derivative contracts and may be retained by those counterparties in the event that the Group does not meet its contractual obligations.
- (v) The Group has provided a bank guarantee in favour of Western Power. This can be called upon if the Neerabup partnership fails to pay its monthly transmission invoices.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 6: Other Disclosure Items

#### 35. Related Party Disclosures

##### Transactions with Sunset Power International Pty Ltd

A subsidiary of the Company, ERM Power Retail Pty Ltd ("ERM"), has entered into a long term electricity swap contract with the Vales Point power station in New South Wales to hedge electricity purchases in relation to its eastern state electricity load from the NEM. The power station is 100% owned by Sunset Power International Pty Ltd ("SPI") which in turn is owned and controlled by Trevor St Baker.

The swap contract was entered into on 20 November 2015 and finalised in February 2016. The contract terms and conditions are no more favourable to SPI than those that it is reasonable to expect ERM would have adopted if dealing at arms-length with an unrelated person and are not adverse to ERM. The components of the contract are as follows:

- Firm flat swap sold to ERM priced at market prices (based on market observed ASX Energy contract prices)
- Firm peak swap sold to ERM priced at market prices (based on market observed ASX Energy contract prices)
- Call option for ERM to purchase additional off-peak swaps
- Call option for ERM to purchase additional peak swaps
- Reallocation and capital efficiency payments over the term of the contract

ERM have access to the respective hedge volumes under the agreement out to 31 December 2022. The total premiums payable for the option over the period 1 July 2018 to 31 December 2022 is \$4.3m.

All accounts payable are within payment terms of the agreement and no impairment loss has been recognised during the period in relation to the transaction. The agreement expires on 31 December 2022 and under the agreement ERM is expected to hedge approximately 21% of ERM's electricity load sales over the term of the agreement prior to exercise of any of the available options.

As at 30 June 2018 net assets of \$54.7m have been recognised in relation to the above transaction comprising the following:

MTM of electricity swaps of \$19.1m of which \$31.5m is current<sup>(i)</sup> and (\$12.4m) is non-current

MTM of electricity options of \$23.2m of which \$12.5m is current<sup>(i)</sup>

Accrued income of \$12.4m

During the year ended 30 June 2018 total net receipts of \$120.0m were recognised in profit and loss in respect of the swap agreement.

Under the terms of the swap agreement SPI has posted a bank guarantee in favour of ERM for \$8.5m. The guarantee is accessible under a range of financial risk events.

(i) Refer Note 23 for details of fair value measurement

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 6: Other Disclosure Items

#### 35. Related Party Disclosures (continued)

##### Other related party transactions

In the normal course of business the Company enters into the following transactions with related parties:

- Project management and operations management fees are charged to jointly controlled entities;
- Interest is paid on shareholder loans; and
- Directors personal travel insurance is provided under standard terms of a directors and officers business travel insurance policy taken out by the Company. Cover under this policy for directors personal travel is provided by the insurer at no additional cost to the Company.

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

	CONSOLIDATED	
	2018	2017
	\$	\$
<b>Transactions with jointly operated and joint venture entities:</b>		
Movements in net loans advanced / (repaid)	332	(382)
Current trade receivables balance	94,311	93,618
Project fees and operations management fees	2,659,737	2,562,785
Electricity derivatives settled (loss) / profit	(169,177)	708
<b>Transactions with associates:</b>		
Accrued income balance	192,875	300,669
Electricity derivatives settled profit	3,316,928	1,479,873

Refer note 29(b) for details of significant jointly controlled entities and note 29(d) for details of associates.

	CONSOLIDATED	
	2018	2017
	\$	\$

#### 36. Auditors' Remuneration

*Amounts received or due and receivable by PricewaterhouseCoopers Australia for:*

An audit or review of the financial report of the entity and any other entity in the Group

500,000	555,000
500,000	555,000

*Amounts received or due and receivable by PricewaterhouseCoopers Australia for non-audit services:*

Other procedures in relation to the entity and any other entity in the consolidated Group

-	93,328
-	93,328
500,000	648,328

**Total remuneration of PricewaterhouseCoopers Australia**

*Amounts received or due and receivable by network firms of PricewaterhouseCoopers Australia for:*

An audit or review of the financial report of the entity and any other entity in the Group

**Total remuneration of network firms of PricewaterhouseCoopers Australia**

148,830	143,006
148,830	143,006

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 6: Other Disclosure Items

#### 37. Events After the Reporting Period

Since 30 June 2018 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

#### 38. Basis of Preparation

These financial statements cover ERM Power Limited the consolidated entity ("Group" or "Consolidated Entity") consisting of ERM Power Limited (the "Company") and its subsidiaries. The report is presented in Australian dollars.

The Company is incorporated and domiciled in Australia. Its registered office and place of business is Level 52, 111 Eagle Street, Brisbane, Queensland 4000.

A description of the nature of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 27 to 30.

This report was authorised for issue by the directors on 23 August 2018.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company is a for-profit entity for the purpose of preparing the financial statements.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

##### *Compliance with IFRS*

The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss and other comprehensive income.

##### *Early adoption of Australian Accounting Standards*

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2017.

##### *Changes in accounting policies*

The Group has not had to change its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2017.

#### **(a) Foreign currency translation**

##### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency at the rate of exchange at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

##### *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

# ERM Power Limited

## Notes to the Consolidated Financial Statements

### Section 6: Other Disclosure Items

#### 38. Basis of Preparation (continued)

##### (a) Foreign currency translation (continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

##### (b) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables at the balance date.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

##### (c) Rounding of amounts

The Group is of a kind referred to in legislative instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

##### (d) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods. Unless stated otherwise below, the Group is currently in the process of assessing the impact of these standards and amendments and is yet to decide whether to early adopt any of the new and amended standards.

##### *AASB 2014-10 Sale or contribution of assets between an investor and its associate or joint venture (effective from 1 January 2018).*

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting depends on whether the contributed assets constitute a business or an asset.

##### *AASB 2016-5 Classification and Measurement of Share-based Payment Transactions (effective from 1 January 2018).*

Amendments were made to AASB 2 Share-based Payment which clarify how to account for cash-settled share-based payments with performance conditions, modifications that change a cash-settled arrangement to an equity-settled arrangement, and equity-settled awards that include a 'net settlement' feature which requires employers to withhold amounts to settle the employee's tax obligations.

##### *Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018).*

The interpretation clarifies how to apply the standard on foreign currency transactions, AASB 121, when an entity pays or receives consideration in advance for foreign currency-denominated contracts.

##### *AASB Interpretation 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019).*

The Interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments.

##### *AASB 2018-1 Annual Improvements 2015–2017 Cycle (effective from 1 January 2019).*

This standard makes amendments to AASB 3 Business Combinations, AASB 11 Joint Arrangements, AASB 112 Income Taxes and AASB 123 Borrowing Costs.

##### *AASB 2018 -2 Amendments to AASB 19 – plan amendment, curtailment or settlement (effective from 1 January 2019).*

The AASB has issued amendments to the guidance in AASB 119 Employee Benefits in connection with accounting for plan amendments, curtailments and settlements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# ERM Power Limited

## Directors' Declaration

In the opinion of the directors of ERM Power Limited ("Company"):

- (a) the financial statements and notes set out on pages 47 to 107 are in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the financial position of the consolidated entity as at 30 June 2018 and of its performance for the year then ended, and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- (b) the financial report complies with International Financial Reporting Standards as disclosed in note 38;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

Note 38 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors:



Tony Bellas

**Chairman**

23 August 2018





## *Independent auditor's report*

To the members of ERM Power Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of ERM Power Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

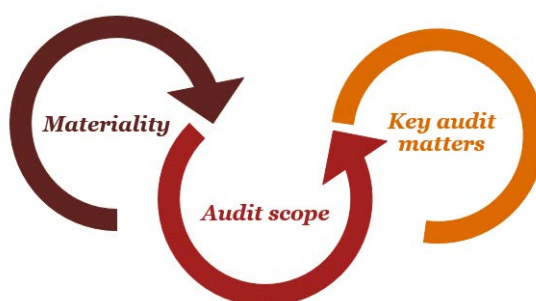
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates across Australia and the United States of America, with its head office finance function based in Brisbane and its US finance function for the Source Power and Gas business based in Houston, United States of America.



### **Materiality**

- For the purpose of our audit we used overall Group materiality of \$2.4 million which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation, amortisation and net fair value gains / losses on financial instruments designated at fair value through profit (EBITDAF).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group EBITDAF as the benchmark because, in our view, it is the metric against which the performance of the Group is most commonly measured.
- We utilised a 2.5% threshold based on our professional judgement.

### **Audit Scope**

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- In establishing the overall approach to the Group audit, we determined the type of audit work that needed to be performed. Full scope audit procedures were performed over the Australian operations and the Source Power and Gas business, assisted by local component auditors in Houston.
- To be satisfied that sufficient audit evidence has been obtained on the Source Power and Gas business for our opinion on the Group financial report as a whole, the group audit engagement team had active dialogue throughout the year with the local component auditors in Houston, including issuing written instructions, receiving formal interoffice reporting, as well as attending final audit clearance meetings with local management in Houston.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
<p><b>Energy derivatives accounting treatment, valuation and disclosure</b> (Refer to note 13 Derivative financial instruments)</p> <p>The Group enters into various types of forward energy derivative instruments to manage exposure to fluctuations in electricity prices.</p> <p>As at 30 June 2018, in the financial report, the energy derivative financial assets totalled \$99m, energy derivative financial liabilities totalled \$84m and net fair value loss on energy derivatives impacting profit totalled \$109m.</p> <p>Given the level of judgement associated with the accounting treatment and valuation of the energy derivatives, and the financial significance of the derivatives balances, we considered this to be a key audit matter.</p> <p>Some of the key areas of judgement by the Group included:</p> <ul style="list-style-type: none"> <li>• The designation, and resulting accounting treatment, of instruments as being hedge accounted or not hedge accounted.</li> <li>• The classification of fair value gains or losses prior to settlement depending on whether the instrument is hedge accounted or not hedge accounted.</li> <li>• The accounting treatment if instruments are settled at a date earlier than the original maturity date, as there is a difference in timing of the recognition of gains or losses in cost of sales dependent on whether the instrument is hedge accounted or not hedge accounted.</li> <li>• The judgement applied in selecting the appropriate valuation techniques, and associated input assumptions, for each type of energy derivative financial instrument entered into by the Group.</li> </ul>	<p>Our procedures in relation to energy derivatives' accounting treatment, valuation and disclosure included, amongst others:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the Group's internal risk management procedures and the systems and controls around the origination and maintenance of complete and accurate information relating to derivative contracts.</li> <li>• Where appropriate, performed tests of key controls relating to the settlement of derivative contracts.</li> <li>• Tested a sample of derivative contracts at the year-end date by obtaining third party confirmations of the contract terms.</li> <li>• With the assistance of PwC valuation experts we assessed the valuation of a sample of derivative contracts at the year-end date where the Group used valuation models. We evaluated the valuation methodology applied and the incorporation of the contract terms and key assumptions into the valuation models, including market observable future price assumptions and discount rates.</li> <li>• Independently recalculated the valuation of a sample of less complex instruments based on available market data.</li> <li>• Evaluated the Group's assessment of credit risk assumptions applied in the valuation models as required by the Australian Accounting Standards.</li> <li>• Assessed the Group's hedge designation documentation and effectiveness testing for a sample of derivatives.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p>For further details of the accounting policy adopted by the Group and the financial impact, refer to note 13, note 14, note 22 and note 23 in the financial report.</p>	<ul style="list-style-type: none"> <li>• Evaluated the Group's assessment of the accounting treatment and classification of settled derivative agreements with a settlement date at a date earlier than the original settlement date.</li> <li>• Evaluated the adequacy of the disclosures made in the notes to the financial report, with reference to the requirements of the Australian Accounting Standards.</li> </ul>
<p><b><i>Sunset Power International derivative agreement</i></b>  <i>(Refer to note 35 Related party disclosures and note 13 Derivative financial instruments)</i></p> <p>The Group has a significant long term electricity derivative contract (contract) with Vales Point power station, in New South Wales, to hedge electricity purchases in relation to its eastern state electricity load from the National Energy Market. The power station is 100% owned by Sunset Power International Pty Ltd, which is owned and controlled by a related party of ERM.</p> <p>The related party disclosures in note 35 of the financial report sets out the key terms of the contractual arrangement.</p> <p>Judgement is required by the Group in estimating the fair value of the derivative contract, due to the life of the contract extending beyond a period that available market data can be obtained. The fair value of the derivative contract is therefore estimated through the application of specific valuation techniques and assumptions.</p> <p>On inception of the contract, a difference was identified between the premiums paid for the contract and the estimated fair value of the contract. Refer to note 23 for treatment of the difference (the day one gain).</p> <p>We considered this a key audit matter, given the importance of the contract to the financial position and performance of the Group, the level of judgement required in the valuation of the contract, and related party nature thereof.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• With the assistance of PwC valuation experts, we assessed the valuation of the derivative contract at the year-end date. We evaluated the valuation methodology applied and the incorporation of the contract terms and the key assumptions into the valuation model, including future price assumptions and discount rates.</li> <li>• Tested the terms of the derivative contract at the year-end date by obtaining written confirmations of the contract terms.</li> <li>• Assessed whether the accounting treatment of the day one gain is consistent with that established at inception.</li> <li>• Evaluated the Group's assessment of credit risk assumptions applied in the valuation model as required by the Australian Accounting Standards.</li> <li>• Assessed the consistency of the related party disclosures with Australian Accounting Standards by agreeing the disclosures to contractual terms, the derivative valuation model and related documentation.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p><b><i>Classification and valuation of the Source Power and Gas held for sale asset</i></b>  <i>(Refer to note 31 Discontinued operation)</i></p> <p>In June 2018, the directors of the Company decided to divest the Source Power and Gas operations, in the US.</p> <p>As at 30 June 2018, the operations to be divested are classified in the financial report as held for sale and discontinued operations, as the Group consider it is highly probable that the carrying value will be recovered principally through a sales transaction within 12 months from the classification.</p> <p>As required by the Australian Accounting Standards, the assets held for sale are measured at the lower of carrying value and estimated fair value less costs to sell.</p> <p>We considered this a key audit matter given the significant level of judgement and estimates involved in assessing the classification and measurement of assets and liabilities in the held for sale discontinued operation, as well as the materiality of the asset and liabilities on the Groups financial position.</p>	<p>Our procedures in relation to the valuation and classification of the Source Power and Gas held for sale discontinued operation assets and liabilities included, amongst others:</p> <ul style="list-style-type: none"> <li>Assessed the appropriateness of the Group's classification of Source Power and Gas as held for sale and discontinued operations.</li> <li>Assessed the accuracy of the allocation of assets and liabilities separately classified as held for sale in the statement of financial position.</li> <li>Evaluated the measurement of the assets and liabilities classified as held for sale at the lower of carrying value and fair value less cost to sell.</li> <li>Evaluated the Group's key assumptions and estimates in relation to the calculation of the fair value less costs of disposal by comparing to indicative bids and contracts.</li> <li>Evaluated the adequacy of the disclosures made in note 31 to the financial report in light of the requirements of Australian Accounting Standards.</li> </ul>
<p><b><i>Recoverability of deferred tax asset relating to tax losses</i></b>  <i>(Refer to note 31 Discontinued operation and note 21 Deferred Tax Assets and Liabilities)</i></p> <p>At 30 June 2018 the Group has recorded a deferred tax asset of \$3.7m relating to tax losses incurred in relation to Source Power and Gas. The recoverability of this deferred tax asset is dependent on the generation of sufficient future taxable income that is expected to be generated upon the sale of Source Power and Gas.</p> <p>The Group has derecognised \$10.3m of deferred tax assets relating to tax losses and other deferred tax assets as they are no longer expected to be recovered.</p> <p>Recoverability of the deferred tax asset relating to tax losses was a key audit matter due to the material nature of the balance and the impact of the derecognition on the financial results as well as the judgements required in estimating the taxable income on the sale of Source Power and Gas.</p>	<p>We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> <li>Evaluated the Group's key assumptions and estimates used in the calculation of the estimated taxable income on the sale of Source Power and Gas operations.</li> <li>Assessed the mathematical accuracy of the amount of the deferred tax asset derecognised.</li> <li>Evaluated the adequacy of the deferred tax balance disclosures, made in note 21 of the financial report, in view of the requirements of Australian Accounting Standards.</li> </ul>



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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, including the Operating and Financial Review, Corporate Social Responsibility, Board of Directors, the Directors' Report and Corporate Information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors for the financial report*

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 31 to 43 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of ERM Power Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

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### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

  
PricewaterhouseCoopers



Michael Shewan  
Partner

Brisbane  
23 August 2018

# Corporate Information

**ERM Power Limited**

ABN 22 122 259 223

**Directors**

Tony Bellas (Non-Executive Chair)  
Albert Goller  
Georganne Hodges  
Tony Iannello  
Philip St Baker  
Wayne St Baker  
Jon Stretch (Managing Director and CEO)

**Company Secretaries**

Phil Davis  
Suzanne Irwin

**Head Office**

(Registered Office and Principal Place of Business)  
Level 52, One One One  
111 Eagle Street  
Brisbane QLD 4000

GPO Box 7152  
Brisbane QLD 4001

Telephone: (07) 3020 5100  
Facsimile: (07) 3220 6110

**Auditors**

PricewaterhouseCoopers

**Share Registry**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000

Telephone: 1300 554 474  
Facsimile: (02) 9287 0303

**Internet Address**

[www.ermpower.com.au](http://www.ermpower.com.au)



